

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
MARCH 25, 2015
APPLICATION SUMMARY**

NAME OF PROJECT: Life Care Centers of America, Inc., d/b/a Life Care Center of East Ridge

PROJECT NUMBER: CN1410-044

ADDRESS: Adjacent to site at 1500 Fincher Avenue
East Ridge (Hamilton, County), Tennessee 37412

LEGAL OWNER: Life Care Centers of America, Inc.
3570 Keith Street, NW
Cleveland (Bradley County), TN 37132

OPERATING ENTITY: N/A

CONTACT PERSON: Cindy S. Cross
(423) 473-5867

DATE FILED: October 14, 2014

PROJECT COST: \$24,874,400

FINANCING: Commercial Loan

REASON FOR FILING: The replacement of the existing 130-bed facility with a new 108-bed facility on the same campus

DESCRIPTION:

Life Care Centers of America, Inc. d/b/a Life Care Center of East Ridge requests approval for the replacement of a Medicare-certified 130 bed nursing home with a new 108 bed facility to be constructed on the same campus. Twenty-two beds will be de-licensed reducing the bed complement from 130 to 108. This application proposes to change the location of the nursing home from its current location at 1500 Fincher Avenue, East Ridge (Hamilton County), TN to a new unaddressed site adjacent to the current location. The proposed 80,200 square foot facility will consist entirely of 108 beds in private rooms. Since the applicant

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is not requesting additional beds, the project is not subject to the 125-bed Nursing Home Bed Pool for the 2014-2015 state fiscal year period.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. For relocation or replacement of an existing licensed health care institution:
 - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

Renovation cost was estimated at \$13,295,700 and construction cost at \$14,837,000. Because of the high cost and several disadvantages associated with renovation, new construction was chosen because the result would be a new state-of-the art facility.

It appears this criterion has been met.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant projects 13,707 patient days of care (34.8% occupancy) in Year 1 of the project and 25,934 patient days of care (65.8% occupancy) in Year 2.

It appears this criterion has been met.

STAFF SUMMARY

Note to Agency members: This staff summary is a synopsis of the original application and supplemental responses submitted by the applicant. Any HSDA Staff comments will be presented as a "Note to Agency members" in bold italics.

Summary

This application is for the replacement of an existing 40 year old nursing home facility to be constructed on land adjacent to the existing site. The applicant indicates the 14.6 acre site provides the opportunity for future expansion that could include an assisted living facility and a retirement facility.

If approved, the existing nursing home will be closed for approximately 2.5 years until the new facility is constructed. Approximately 45 days before the scheduled closing date, patient admissions will be discontinued. Existing patients will be encouraged to transfer to Life Care Center of Collegedale which is under common ownership and has a similar charge structure and is only 11 miles away. The applicant is requesting an extended expiration date of 3 years, which is 1 year beyond the normal expiration date for nursing home projects.

History

- Life Care Center of East Ridge was approved in 1988 for a 40 bed addition to increase licensed nursing home beds from 120 to 160. In September 2008, it agreed to de-license 30 of its 160 beds if a sister facility (Life Care of Missionary Ridge, CN0806-038A) were approved for 30 new beds as part of its replacement/relocation application. The Missionary Ridge application was approved and East Ridge de-licensed the beds effective January 31, 2011.
- Because there was only 21 beds remaining in the 125 bed Nursing Home Bed Pool for the July 2007 - June 2008 state fiscal year period, a second application, Life Care Center of Missionary Ridge (CN0904-016A) was submitted and approved at the July 22, 2009 Agency meeting for the remaining 9 beds.

Ownership Information

- Life Care Center of East Ridge is owned by Life Care Centers of America (99.5%) and East Ridge Medical, Inc. (0.5%) which are both ultimately 100% owned by Forrest L. Preston.

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- Life Care Centers of America, Inc., founded in 1976, is a for profit corporation incorporated in the State of Tennessee with its corporate headquarters in Cleveland, Tennessee.
- Life Care Centers of America, Inc., manages approximately 220 skilled nursing centers in 28 states.
- Life Care operates and/or manages 26 skilled nursing facilities in Tennessee (see attachment B.I.1 for a listing of Life Care facilities).
- Forrest Preston is also involved in the ownership and management of 3 independent /assisted living facilities within the state of Tennessee.

Note to Agency members: In the supplemental response, the applicant indicated Life Care Centers of America, Inc. has been named in the following 2 federal lawsuits filed under the Federal False Claims Act Qui Tam provisions which now have been consolidated in the United States District Court for the Eastern Division of Tennessee:

United States of America, ex rel. Glenda Martin v. Life Care Centers of America, Inc., Case No.: 1:08-CV-251 originally filed October 16, 2008. , and

United State of America, ex.rel.Tammie Taylor v. Life Care Centers of America, Inc., Case No.: 1:12-CV-64 originally filed June 25, 2008.

In supplemental #4, the applicant indicated the lawsuits claim that certain Life Care Centers of America (LCCA) therapists provided rehabilitation therapy to Medicare beneficiaries at a level that was not medically reasonable or necessary, or did not constitute skilled therapy under applicable Medicare guidelines, allegedly causing certain patients to be improperly classified at higher levels of reimbursement. In the December 12, 2014 supplemental response, the applicant indicated discovery is ongoing in the cases, and no trial date for the consolidated lawsuits has been set. In addition, the applicant indicates the effect of any outcome of the cases cannot be reasonably estimated and no provisions have been made in the financial statements for Life Care or any of its affiliates. The applicant notes East Ridge Medical Investors, LLC is not a defendant in the lawsuit. The applicant indicates LCCA believes that it has substantial defenses to the allegations and intends to vigorously defend itself.

Facility Information

- The existing 53,568 SF skilled nursing home will relocate to 80,200 SF of newly constructed space on a 14.6 acre site.
- The number of licensed beds will be reduced from 130 (10 private beds, 120 semi-private beds) at the existing location to 108 beds (private) at the

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proposed new location. These beds are Medicare certified, but not Medicaid certified.

- The newly constructed replacement nursing home will include 3 dayrooms, activity room, ice cream and gift shop, library, beauty shop, outdoor courtyards, walking paths, gazebos, and 2 dining rooms.
- A Square Footage and Cost per Square Footage Chart that details existing Square Footage and proposed final Square Footage is located on page 10 of the application.
- Floor plan drawings are included in Attachment B.IV.

Note to Agency members: Portions of the proposed site are currently approximately 4 feet below the 100 year flood level determined by the Federal Emergency Management Agency (FEMA). The proposed replacement site will require significant fill to be imported to raise the finish floor 4-6 feet above the 100 year flood level. The applicant has included costs to raise the area in the \$1,500,000 Site Preparation Cost.

Project Need:

- The existing nursing home is 40 years old and has significant space limitations in the size of resident rooms, activity spaces, and therapy space plus the lack of space for administrative offices and storage space.
- The bed space in the existing nursing home is 412 square feet per bed and will increase to 743 square feet in the new facility.
- Currently 10 private rooms do not have private showers. The proposed replacement facility will consist of all private rooms with full bathrooms including shower.
- The existing nursing home has an inadequate emergency generator and wiring in the event of a power outage.
- There is only one elevator in the existing 2 story nursing home.
- A new traffic signal will be installed at the new facility to alleviate a congested intersection allowing for a safer traffic pattern.

Service Area Demographics:

Life Care Center of East Ridge's declared service area consists of Hamilton County.

- The total population of Hamilton County is expected to increase by 1.5% from 349,273 residents in 2015 to 354,610 residents in 2019.
- The overall statewide population is projected to grow by 3.7% from 2015 to 2019.
- The service area 2015 age 65 and older category will increase by approximately 10.7% from 57,974 residents in 2015 to 64,174 in 2019 compared to a statewide increase of 12%.

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- The 65 and older population cohort presently accounts for approximately 16.6% of the total service population compared to a statewide average of 15.2%.
- The number of service area residents enrolled in the TennCare program is estimated at approximately 15.7% of the service area population compared with the statewide average of 17.9%.

Historical and Projected Utilization

The licensed bed occupancy of Hamilton County nursing homes was approximately 84% in calendar year 2013. Key highlights follow:

Hamilton County 2013 Nursing Home Utilization

	County	Licensed Beds	2013 Patient Days			2013 Occupancy
			Non-Skilled	Skilled	Total	
Life Care of Collegedale	Hamilton	124	20,035	15,779	35,814	79.1%
Life Care Center of East Ridge	Hamilton	130	7,717	22,333	30,050	63.3%
Life Care Center of Missionary Ridge	Hamilton	108	8,220	26,357	34,577	87.7%
Life Care Center of Red Bank	Hamilton	148	25,409	15,200	40,609	75.2%
Subtotal Life Care Center Facilities		510	63,381	79,669	141,050	75.7%
Alexian Village	Hamilton	114	28,305	6,895	35,200	84.6%
Consulate Health Care	Hamilton	127	31,498	12,856	44,354	95.7%
NHC Healthcare, Chattanooga	Hamilton	207	39,464	20,238	59,702	79%
Siskin Hospital Rehabilitation	Hamilton	29	0	9,093	9,093	85.9%
Soddy Daisy Healthcare Center	Hamilton	120	29,800	10,123	39,923	91.1%
St. Barnabas Nursing Home	Hamilton	108	30,627	6,134	36,761	93.2%
The Health Care Center- Standifer	Hamilton	444	102,215	39,898	142,113	76%
Subtotal Other Nursing Homes		1,149	261,909	105,237	367,146	87.5%
Grand Total		1,659	323,290	184,906	508,196	83.9%

Source: 2013 Joint Annual Report

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- Life Care Center of East Ridge's non-skilled patient days in 2013 represented 25.6% and skilled days 74.3% of total patient days in 2013.
- Overall, non-skilled patient days in Hamilton County represented 63.6% and skilled patient days 36.4% of total patient days in 2013.
- There are 4 Life Care owned nursing homes in Hamilton County representing 510 licensed beds that experienced an occupancy rate of 75.7% in 2013, which is approximately 8 percentage points lower than 87.5% of the remaining 7 nursing homes in Hamilton County that represented 1,659 licensed nursing home beds.
- Life Care Center of East Ridge is Medicare-certified, while the other 3 Life Care nursing homes are Medicare/Medicaid certified.

Life Care Center of East Ridge Historical and Projected Utilization

	2011	2012	2013	2014		2017	2018
Licensed Beds	160	130	130	130		108	108
Patient Days	36,790	33,963	30,050	26,238		13,707	25,934
Average Daily Census	100.8	93.1	82.3	71.9		37.6	71.1
Occupancy	63%	71.6%	63.3%	55.3%		34.8%	65.8%

The utilization table above reflects the following:

- Patient Days will increase 89% from 13,707 in 2017 to 25,934 in 2018 (Year 2).
- The occupancy of 63% on 160 beds in 2011 will increase to 65.8% in 2018 (Year 2) on 108 beds which is 52 less licensed beds.

The table below highlights the projected utilization in the first two years of the project.

Life Care Center of East Ridge Projected Utilization

Year	Licensed Beds	Medicare certified beds	SNF Medicare ADC	SNF Medicaid ADC	Skilled Other payors ADC	Non Skilled ADC (other payors)	Total ADC	Occup.
2017	108	108	28.2	0	1.8	7.6	37.6	34.8%
2018	108	108	53.4	0	3.4	14.3	71.1	65.8%

Source: CN1410-044, Page 25

- Life Care Center of East Ridge estimates the licensed occupancy of the 108-bed nursing unit will increase from 34.8% in 2017 to 65.8% in 2018.
- The applicant projects a patient mix of 28.2 Medicare skilled patients and 1.8

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skilled (other payors), and 7.6 non-skilled (other payors) patients for a total average daily census of approximately 37.6 patients per day in the first year of the project.

Project Cost

Major costs of the \$24,874,400 total estimated project cost are:

- Acquisition of Site: \$3,722,400 or 15% of total cost
- Construction (including contingency) - \$15,337,000 or 62% of total cost.

For other details on Project Cost, see the Project Cost Chart on page 27 of the original application.

A letter dated October 20, 2014 from Franklin Associates, Architects, Inc. states that the proposed construction costs were reviewed and that the plan will meet all the requisite elements required by the 2010 AIA Guidelines for the Design and Construction of Healthcare Facilities as well as all applicable local, state, and federal standards.

Construction Cost Per Square Foot

- The new construction cost is \$185.00 per square foot (SF) for the 80,200 square feet replacement nursing home.
- As reflected in the table on the following page, the new construction cost is above the 3rd quartile of \$167.61 per square foot as compared to other nursing home construction projects between 2011 and 2013.
- In the supplemental response, the applicant indicates higher construction costs are the result of having all private rooms which increases the number of bathrooms in patient rooms.

Please note the table displayed below:

**Statewide
Nursing Home Construction Cost Per Square Foot
Years 2011-2013**

	Renovated Construction	New Construction	Total construction
1st Quartile	\$25.00/sq. ft.	\$152.80/sq. ft.	\$94.55/sq. ft.
Median	\$55.00/sq. ft.	\$167.31/sq. ft.	\$152.80/sq. ft.
3rd Quartile	\$101.00/sq. ft.	\$176.00/sq. ft.	\$167.61/sq. ft.

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Historical Data Chart

The applicant provided a Historical Data Chart for Life Care Center of East Ridge.

- Life Care Center of East Ridge reported net operating income after capital expenditures of \$1,283,834 in FY2011, (\$168,677) in FY2012, and \$7,988 in FY2013.

Projected Data Chart

The applicant provided a Projected Data Chart for the 108-bed replacement nursing home. The Projected Data Chart reflects the following:

- In FY2017 on projected 13,707 patient days, gross operating revenue is projected to be \$6,862,250 (\$501/day) and in FY2018 on 25,934 patient days, projected gross operating revenue is \$13,817,386 (\$533/day).
- Deductions from operating revenue are projected to total \$809,184 in FY2017 or 11.8% of gross revenue and in FY2018 total deductions of \$2,677,867 or 19.4% of gross revenues.
- With net operating revenue in 2017 of \$6,053,066 and operating expenses of \$8,190,185, the result is a projected net operating loss of (\$2,462,272). Net operating income is expected to increase to \$181,297 in FY2018.
- No Charity Care is projected in Year One or in Year Two of the proposed project.

Charges

Summarizing from the revised Projected Data Chart the average patient daily charges are as follows:

- The proposed average gross per diem charge is \$501.00/day in FY2017; however, the net charge after contractual adjustments amounts to \$442 per day. Net charges decrease to \$430 in FY2017.

Note to Agency Members: Section 4432(a) of the Balanced Budget Act of 1997 changed how payment is made for Medicare skilled nursing facility services from a cost based to a per-diem prospective payment system (PPS) covering all costs (routine, ancillary and capital) related to the services furnished to beneficiaries under Part A of the Medicare program. Under PPS, payments for each admission are case-mix adjusted to classify residents into a Resource Utilization Group (RUG) category based on data from resident assessments and relative weights developed from staff time data. Source: "Skilled Nursing Facility PPS", CMS.gov.

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Medicare/TennCare Payor Mix

- Medicare - In FY2017 gross revenue of \$4,814,872 or approximately 70% of total revenue.
- There are no TennCare/Medicaid projections as the facility will not be Medicaid certified.

Financing

- An October 2, 2014 funding letter from Bianca Andujo, Bank of Texas Senior Vice President, indicates the \$24,874,400 project will be funded by a 100% bank loan over a 5 year period with interest only payments during construction and lease up. The letter noted a current interest rate of 4%.
- A letter dated October 6, 2014 in Supplemental #1 from Renee B. Ford, CPA, of Decosimo Certified Public Accountants, notes the project will be bank-financed over five years, requiring total principal and interest payments of approximately \$995,000 per year and a balloon payment of approximately \$23.9 million which will be refinanced.
- Ms. Ford's letter also notes the net cash flows from the 2011-2013 audited financial statements were substantially in excess of the debt service of the operating capital needed for East Ridge and the approximately \$7.5-8.5 million for the several new skilled facilities under construction and in fill-up stages during 2014-2015.
- A letter dated October 30, 2014 from Decosimo Certified Public Accountants in Supplemental #1 notes a current ratio of 2.06:1 (including current maturities of long-term debt expected to be refinanced in total current liabilities in the calculation), and a debt service coverage ratio of 1.53:1 from Life Care Centers of America, Inc. and Consolidated Entities audited financial statements as of December 31, 2013.
- Review of the East Ridge Nursing Home unaudited financial statements for the period ending December 31, 2013 indicates \$941.00 in cash, total current assets of \$2,107,679, total current liabilities of \$824,465 and a current ratio of 2.55 to 1.

Note to Agency members: Decosimo did not provide the financial figures that calculated the current and debt service ratios. The following are the definitions of current and debt service ratios:

Current Ratio is a measure of liquidity and is the ratio of current assets to current liabilities, which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Debt Service Ratio measures the ability to meet annual debt payments by dividing net income available for debt service by annual debt service

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requirements. A ratio of less than one means that the company doesn't generate enough operating profits to pay its debt service and must use some of its savings. Generally, companies with higher service ratios tend to have more cash and are better able to pay their debt obligations on time.

Note to Agency members: In order to evaluate the financial feasibility of the proposed project, the most recent audited financial statements from Life Care of America, Inc. with accompanying results was requested in Supplemental requests, but was refused to be provided by the applicant. Audited financial statements with accompanying notes are used to demonstrate the financial feasibility of a project. They are especially important when an applicant has multiple projects under construction.

The following is a table for Life Care Centers of America, Inc.'s capital projects for the past 5 years:

Project Name	State	Capital Cost	Date/Expected Date of Completion
Cape Girardeau SNF	MO	\$20,301,930	12/19/2013
Hickory Woods SNF	TN	\$23,575,574	12/13/2011
Hixson SNF	TN	\$18,827,656	12/16/2010
Old Hickory SNF	TN	\$23,526,304	4/4/2012
Ooltewah SNF	TN	\$24,955,535	12/5/2012
Rhea County SNF	TN	\$21,900,676	1/12/2013
Stonegate SNF	TN	\$24,573,283	5/8/2012
Sub-Total		\$157,573,283	
Proposed: Life Care Center of East Ridge (CN1410-044)	TN	\$24,874,400	9/2017
Grand Total		\$182,535,358	

Source: CN1410-44 Supplemental #1

Attached to this summary is a transcript from the Agency meeting dated May 23, 2012 for the applicant's most recent Life Care Center of America's project, Colonial Hills Nursing Home, CN1202-003A which was also attached to Supplemental Request #3. In the Colonial Hills Nursing Home transcript, an Agency member is documented as requesting the consolidated financial statements for Life Care Centers of America, Inc. which were not available in the Colonial Hills Nursing Home application. As stated previously, the Agency request to review the most recent consolidated financial statements for Life Care Centers of America, Inc. was refused by the applicant. The applicant has stated that Life Care is a privately held company and is not required by law to make its financial statements public. As stated in the applicant's Supplemental #3

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response, the applicant is prepared to incur the risks of presenting its application without the benefit of an audited financial statement.

Staffing

The applicant's current staffing pattern for direct patient care in Year One (2017) staffing totals 87.5 full time equivalents (FTE), direct patient care staff calculates to approximately 13.3 hours of care per resident per day. Clinical staff includes the following positions classifications:

- 6.0 FTE Registered Nurses (RNs)
- 16.0 FTE Licensed Practical Nurses (LPN)
- 32.0 Certified Nursing Aides
- 18.0 Physical Therapists
- 3.5 Speech Therapists
- 12 Occupational Therapists

Note to Agency Members: 1 FTE means an employee who works 2,080 regular hours per year. Current licensure standards require nursing homes to have adequate numbers of licensed registered nurses, licensed practical nurses and certified nurse aides to provide nursing care to all residents as needed. Nursing homes shall provide a minimum of 2 hours of direct care to each resident every day including 0.4 hours of licensed nursing personnel time. There must be supervisory and staff personnel for each department or nursing unit to ensure, when needed, the availability of a licensed nurse for bedside care of any resident. Source: Chapter 1200-08-06-.06, Rules of the Board for Licensing Health Care Facilities, Division of Health Care Facilities, Tennessee Department of Health (revised March 2014).

Licensure/Accreditation

Life Care Center of East Ridge is licensed by the Tennessee Department of Health, certified by Medicare, and is Joint Commission accredited. Life Care Center of East Ridge's most recent survey by the Department of Health was January 21-23, 2014. As a result of the survey, the applicant was required to submit a plan of correction. In a letter dated March 24, 2014 from the Department of Health, the plan of correction was accepted and East Ridge was in compliance with all participation requirements as of February 14, 2014. A copy of the survey and letter are located in the Attachment, Orderly Development, 7 (c). 1.

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Note to Agency members: In the supplemental response, the applicant indicated Life Care Center of East Ridge was assessed \$195,715 in state and federal penalties in connection with the facility's 10/18/2011 survey.

A news release from the Tennessee Department of Health dated November 9, 2011 stated the following: "On November 3, the Life Care Center of East Ridge was ordered not to admit any new residents based on conditions found during a complaint investigation conducted October 10 - October 18. During the inspection, surveyors found violations of the following standards: administration, performance improvement, and nursing services. The Tennessee Department of Health announced that the suspension of admissions at Life Care Center of East Ridge was lifted effective November 8, 2011."

Corporate and property documentation are on file at the Agency office and will be available at the Agency meeting.

Note to Agency Members: If approved, Life Care Center of East Ridge requests an extended expiration date of 3 years, which is 1 year beyond the normal expiration date for nursing home projects. The Project Completion Chart on page 21 of the original application indicates the initiation of service for the proposed project is projected to occur in September 2017.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT

There are no other Letters of Intent, denied or pending applications, or outstanding Certificates of Need for this applicant.

Life Care Centers of America, Inc. has a financial interest in this project and the following:

Denied Applications

Dayton Medical Investors, LLC dba Life Care Center of Rhea County, CN1003-013D, was denied at the June 23, 2010 Agency meeting. The application was for the relocation and replacement of an 89 bed nursing home from 7824 Rhea County Highway, Dayton (Rhea County), TN, to an unaddressed site on Manufacturers Road, Dayton (Rhea County), TN. Estimated project cost was **\$15,094,887.00**. Reason for denial: *The orderly development of adequate and effective health care is at risk in terms of potential damage to other existing facilities.*

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Outstanding Certificates of Need

Colonial Hills Nursing Center, CN1208-039A, has an outstanding certificate of need that will expire on January 1, 2016. The CON was approved at the November 14, 2012 Agency meeting. The CON was approved to relocate and replace the 120 bed nursing home from 2034 Cochran Road, Maryville (Blount County), TN 37803 to 1965 Stewart Lane, Louisville (Blount County), TN 37777. The estimated project cost is **\$21,239,000.00**. *Project Status: A February 2, 2015 progress report indicated interior walls, ceilings, and attics are being constructed. Exterior siding and stone work is continuing. The anticipated date of project completion is August 1, 2015.*

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no Letters of Intent, denied applications, pending applications or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME (03/09/15)

CN1202-003 (Camp Hill Nursing Center)
5/23/12

1 six and I'm talking about managerial types,
2 whether it's healthcare management or
3 businesses manager, how many of those people
4 are still employed in the Life Care
5 organization?

6 DR. SCOTT: Ken Scott,
7 corporate medical director. I'm trying to
8 think through that. Pretty much I think
9 there's one regional vice president in the
10 line of that that is still employed. The ED
11 is gone. The divisional director for the
12 Tennessee area has been replaced. The chief
13 operating officer has been replaced. So, all
14 the way up those positions were replaced.

15 MR. DOOLITTLE: Okay.

16 DR. SCOTT: There's one
17 regional vice president still.

18 MR. DOOLITTLE: Okay. I have
19 a second question and it has to do with
20 financing of the facility, which perhaps
21 there's someone else that -- I apologize for
22 my terrible cold. I sound like a frog.

23 MR. PIGG: Mike Pigg,
24 Life Care controller.

25 MR. DOOLITTLE: Mr. Pigg?

1 MR. PIGG: Pigg.

2 MR. DOOLITTLE: Does Life Care
3 typically finance these facilities on a
4 project financing basis?

5 MR. PIGG: Yes, sir.

6 MR. DOOLITTLE: Okay. So, the
7 financing of the facility is based on the
8 credit of the facility; is that correct?

9 MR. PIGG: It's based on the
10 potential value of that facility, yes.

11 MR. DOOLITTLE: Okay. Is
12 there a Life Care parent guarantee of the
13 financing?

14 MR. PIGG: Yes, sir.

15 MR. DOOLITTLE: Okay. We
16 don't have any financials on Life Care in
17 this application that I'm aware of. We have
18 a letter from the Decosimo saying it's a big
19 company, and I know enough about
20 Life Care to know it is a big company, but is
21 there some reason that we don't have any
22 financials on the consolidated organization?

23 MR. PIGG: Yeah. Each of our
24 properties stand on their own. We have a lot
25 of different partnerships involved and

1 ownership structures involved in different
2 facilities. We do roll those up under one
3 company number at the end of the year, and
4 that is what you're speaking to on the
5 audit.

6 We don't normally release
7 those financial statements, but through the
8 audit letter you've seen that we do have the
9 external audit done and performed on our
10 consolidation.

11 MR. DOOLITTLE: Right. But if
12 you just look at the financials of the
13 facility, it looks like you've dividend it
14 out over the years most of the equity, most
15 of the profits, which is entirely
16 appropriate, but it looks to me like you've
17 got a negative equity account basically at
18 the facility; is that right?

19 MR. PIGG: At this facility,
20 we have struggled over the last several
21 months of operations, which has generated a
22 negative pretax profit or pretax loss.

23 MR. DOOLITTLE: Well, I'm
24 looking at the balance sheet.

25 MR. PIGG: At the balance

1 sheet.

2 MR. DOOLITTLE: Yeah.

3 MR. PIGG: The why Life Care
4 operates is when we do generate equity in a
5 facility, a lot of times we will pull that
6 equity out and go into building new
7 facilities, paying down debt on existing
8 buildings that may have situations going on.

9 MR. DOOLITTLE: Right. Now,
10 I'm not at all suggesting it's not entirely
11 kosher, but my question is it appears to me
12 that the credit for this project, if it's
13 approved, is not really the facility, it's
14 the parent company, and yet, all we have is a
15 letter from the Decosimo saying it's a big
16 company that, you know, makes a bunch of
17 money.

18 MR. PIGG: I think that
19 Life Care's credit reputation is a part of
20 that. However, the ability of that facility
21 to generate revenue and a pretax profit is
22 what the financing is based on. The outcomes
23 that that facility individually generates.

24 MR. DOOLITTLE: Okay. Well,
25 one man's opinion, it would be nice if we had

1 some parent company financials included in
2 applications like this in the future. Thank
3 you. That's all I have, Mr. Chairman.

4 MR. ELROD: Mr. Doolittle,
5 Dan Elrod, if I could follow up on that. The
6 way they did this application is the way that
7 all Life Care applications have been
8 presented to the agency, and being a
9 privately-owned company the reluctance to
10 make their financial statement a public
11 record, which it would be if it were filed as
12 part of the CON application, frankly, is
13 because, partly because nationwide the
14 nursing home industry has been a target
15 Defendant and subject to unbelievable
16 litigation of pressure by basically a cottage
17 industry of trial lawyers who have made a lot
18 of money suing nursing homes, and so, to the
19 extent that they cannot have that out in the
20 public domain, they think that's a good
21 situation for them from a business
22 standpoint. That's the underlying rationale.

23 MR. DOOLITTLE: No, I
24 understand that. I spent 35 years in
25 investment banking. I understand private

1 companies. I'm just suggesting that in the
2 future, notwithstanding that reason, I
3 personally would like to see some
4 consolidated financials in here. Thank you
5 very much.

6 MR. KOELLA: Okay.

7 Mr. Gaither.

8 MR. GAITHER: I guess this is
9 for Mr. Elrod. How many calories do you burn
10 getting up and down?

11 MR. ELROD: Too many.

12 MR. GAITHER: Well, I guess
13 you can pick up on the concern up here. I
14 guess I'll just give you guys an opportunity
15 to tell us -- you have several facilities in
16 Tennessee, what do those surveys look like
17 and what is going to be done differently to
18 make sure things are detected and fixed
19 quickly? I'll just give you an opportunity
20 to address that since I think that's what a
21 lot of us are trying to get to here.

22 MR. ELROD: Mr. Gaither, I
23 agree, and that's the reason as part of our
24 initial presentation I guess we anticipated
25 that would be a very legitimate line of

LETTER OF INTENT



State of Tennessee
Health Services and Development Agency

Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Chattanooga Times Free Press which is a newspaper
(Name of Newspaper)
of general circulation in Hamilton, Tennessee, on or before October 10, 2014,
(County) (Month / day) (Year)
for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Life Care Centers of America, Inc., d/b/a Life Care Center of East Ridge Nursing Home
(Name of Applicant) (Facility Type-Existing)

Owned by: and operated by Life Care Centers of America, Inc., with an ownership type of corporation

and to be managed by: N/A intends to file an application for a Certificate of Need

for: Life Care Center of East Ridge, operated by Life Care Centers of America, Inc., a Tennessee corporation (the "applicant") Intends to

file an application for a Certificate of Need for the replacement of its current facility located at 1500 Fincher Avenue, East Ridge, Tennessee.

The replacement facility will allow for the construction of a new nursing home facility to replace the existing forty year old building and will

be located to the east of the existing facility upon an unaddressed site adjacent to the current site at 1500 Fincher Avenue, Hamilton County,

East Ridge, Tennessee. The approximate project cost of the replacement will be \$24,874,400.00. The new facility will reduce the number

of beds from 130 beds to 108 beds. No other services will be initiated or discontinued, and no major medical equipment will be requested.

The anticipated date of filing the application is: October 15, 2014

The contact person for this project is Cindy S. Cross Assistant Secretary

(Contact Name)

(Title)

who may be reached at: Life Care Centers of America, Inc., 3570 Keith Street, NW

(Company Name)

(Address)

Cleveland

TN

37312

423/473-5867

(City)

(State)

(Zip Code)

(Area Code / Phone Number)

Life Care Centers of America, Inc.

By: Cindy S. Cross

10/8/14

Cindy.Cross@lcca.com

Cindy S. Cross, Assistant Secretary

(Date)

(E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

COPY

-Application

Life Care Center
of Eastridge

CN1410-044

1. Name of Facility, Agency, or Institution
Life Care Centers of America, Inc. dba Life Care Center of East Ridge

Name

**The new facility will be located East of the existing facility
adjacent to the current site at 1500 Fincher Avenue**

Street or Route

Hamilton

County

East Ridge

City

Tennessee

State

37412

Zip Code

2. Contact Person Available for Responses to Questions
Cindy S. Cross

Name

Sr. Director of Legal Services

Title

Life Care Centers of America, Inc.

Company Name

cindy_cross@lcca.com

Email Address

3570 Keith Street, NW

Street or Route

Cleveland

City

Tennessee

State

37312

Zip Code

Employee of Applicant

Association with Owner

423-473-5867

Phone Number

423-339-8339

Fax Number

3. Owner of the Facility, Agency or Institution
Life Care Centers of America, Inc.

Name

423-473-5867

Phone Number

3570 Keith Street NW

Street or Route

Bradley

County

Cleveland

City

Tennessee

State

37312

Zip Code

4. Type of Ownership or Control (Check One)
A. Sole Proprietorship**B. Partnership****C. Limited Partnership****D. Corporation (For Profit)****E. Corporation (Not-for-Profit)****F. Government (State of TN or
Political Subdivision)****G. Joint Venture****H. Limited Liability Company****I. Other****X**

Response: Attachment A.4.1 is a copy of the charter and amendment to charter, Attachment A.4.2 is a copy of the Bylaws, and Attachment A.4.3 is a copy of the corporate organization chart.

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

5. Name of Management/operating Entity (If Applicable)

Name _____

Street or Route _____

County _____

City _____

State _____

Zip Code _____

Response: Not applicable, Life Care Center of East Ridge is operated by Life Care Centers of America, Inc.

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership _____

D. Option to Lease _____

X

B. Option to Purchase _____

E. Other _____

C. Lease Of _____ Years _____

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

Response: Attachment A.6.1 is a draft copy of the lease.

7. Type of Institution (Check as appropriate---more than one response may apply)

A. Hospital (Specify) _____

I. Nursing Home _____

X

B. Ambulatory Surgical Treatment Center (ASTC) Multi-Specialty _____

J. Outpatient Diagnostic Center _____

K. Recuperation Center _____

C. ASTC, Single Specialty _____

L. Rehabilitation Facility _____

D. Home Health Organization _____

M. Residential Hospice _____

E. Hospice _____

N. Non-Residential Methadone Facility _____

F. Mental Health Hospital _____

O. Birthing Center _____

G. Mental Health Residential Treatment Facility _____

P. Other Outpatient Facility _____

H. Mental Retardation Institution Habilitation Facility (ICF/MR) _____

Q. Other (Specify) _____

8. **Purpose of Review** (Check) as appropriate - - more than one response may apply)

- | | | | |
|-----------------------------------|----------|------------------------------|----------|
| A. New Institution | _____ | H. Change in Beds Complement | _____ |
| B. Replacement/Existing Facility | <u>X</u> | [Please note the type of | _____ |
| C. Modification/Existing Facility | _____ | change by underlining the | _____ |
| D. Initiation of Health Care | _____ | appropriate response: | _____ |
| Service as defined in TCA § | _____ | Increase, <u>Decrease</u> , | _____ |
| § 68-11-1607(4) (Specify) _____ | _____ | Designation, Distribution, | <u>X</u> |
| E. Discontinuance of OB | _____ | Conversion, Relocation] | _____ |
| Services | _____ | | _____ |
| F. Acquisition of Equipment | _____ | I. Change of Location | _____ |
| | _____ | J. Other (Specify) | _____ |

9. **Bed Complement Data**

Please indicate current and proposed distribution and certification of facility beds.

	<u>Current Beds</u>		<u>Staffed</u>	<u>Beds</u>	<u>TOTAL</u>
	<u>Licensed</u>	<u>*CON</u>	<u>Beds</u>	<u>Proposed</u>	<u>Beds at</u>
A. Medical	_____	_____	_____	_____	_____
B. Surgical	_____	_____	_____	_____	_____
C. Long-Term Care Hospital	_____	_____	_____	_____	_____
D. Obstetrical	_____	_____	_____	_____	_____
E. ICU/CCU	_____	_____	_____	_____	_____
F. Neonatal	_____	_____	_____	_____	_____
G. Pediatric	_____	_____	_____	_____	_____
H. Adult Psychiatric	_____	_____	_____	_____	_____
I. Geriatric Psychiatric	_____	_____	_____	_____	_____
J. Child/Adolescent Psychiatric	_____	_____	_____	_____	_____
K. Rehabilitation	_____	_____	_____	_____	_____
L. Nursing Facility - SNF (Medicare only)	<u>130</u>	<u>0</u>	<u>130</u>	<u>-22</u>	<u>108</u>
M. Nursing Facility - NF (Medicaid only)	_____	_____	_____	_____	_____
N. Nursing Facility - SNF/NF (dually certified Medicaid/Medicare)	_____	_____	_____	_____	_____
O. Nursing Facility - Licensed (non-Certified)	_____	_____	_____	_____	_____
P. IDIHF	_____	_____	_____	_____	_____
Q. Adult Chemical Dependency	_____	_____	_____	_____	_____
R. Child and Adolescent Chemical Dependency	_____	_____	_____	_____	_____
S. Swing Beds	_____	_____	_____	_____	_____
T. Mental Health Residential Treatment	_____	_____	_____	_____	_____
U. Residential Hospice	_____	_____	_____	_____	_____
TOTAL	<u>130</u>	<u>0</u>	<u>130</u>	<u>-22</u>	<u>108</u>

*CON-Beds approved but not yet in service

10.	Medicare Provider Number	<u>445296</u>
	Certification Type	<u>Nursing Home</u>
11.	Medicaid Provider Number	<u>0445296</u>
	Certification Type	<u>Level II only</u>
12.	If this is a new facility, will certification be sought for Medicare and/or Medicaid? <input type="checkbox"/> Yes <input type="checkbox"/> No Not Applicable <input checked="" type="checkbox"/> NA	
13.	Will this project involve the treatment of TennCare participants? <u>No</u>	

NOTE: **Section B** is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. **Section C** addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. **Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.**

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

- I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of the proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

Response: Description – This Certificate of Need application is for the on-site replacement of Life Center of East Ridge, a 130 bed nursing home located at 1500 Fincher Avenue, East Ridge (Hamilton County), Tennessee. The facility was constructed in 1975 and expanded in 1989. The number of licensed beds in this facility will be reduced from 130 to 108. During 2013, the facility provided 30,050 days of care, or an average occupancy rate of 63 percent.

Starting in 1998, twelve parcels, containing 9.76 acres adjacent to the current site were purchased. These parcels will be combined with the existing site. Cumulatively, the new site will contain ± 14.6 acres. An address has not been assigned to the proposed building. However, the address may not change.

Ownership Structure – Life Care Centers of America, Inc. (Life Care) manages approximately 230 skilled nursing centers in 28 states. The company was founded in 1976, and is incorporated in the state of Tennessee with its Corporate Headquarters in Cleveland, Tennessee. Life Care operates and/or manages 26 skilled nursing facilities in the state of Tennessee. (Please see Attachment B.I.1 for a listing of all Life Care affiliated facilities in Tennessee.) Forrest L. Preston is the Chairman and sole shareholder of Life Care. He also is involved in the ownership and management of three independent/assisted living facilities within the state of Tennessee.

Service Area The primary service area is defined as Hamilton County which is expected to have a population of 349,273 in 2015.

Existing Resources Twelve nursing homes containing 1,779 licensed beds, are currently licensed in the service area, Hamilton County. Life Care Center Of Ooltewah was opened during 2013. During 2012, the eleven nursing homes reported providing 514,979 patient days, or an occupancy rate of 85 percent.

Need The facility was built in 1975 with an addition in 1988. The 40 year old physical plant is aging and presents space limitations. These limitations include the size of resident rooms, activity spaces, and therapy space, plus the lack of space for administrative offices and storage space. Rehabilitation services are spread throughout the facility and are crowded. The facility has only four private rooms. Rooms do not have private showers. The laundry is in a detached building. Outdoor space is limited. There is only one outdoor courtyard and walking paths are limited. The emergency generator and wiring of the facility limit the amount of power available to support the needs of residents in a power outage. The facility is a two story building and currently has only one elevator.

The intersection from which you access the facility is very congested. As part of this project a new traffic signal will be installed. The entry drive into the site will be relocated further from the intersection to allow for a safer traffic pattern. The site will also be made safer by closing a through road on the site and eliminating a secondary point of access.

The nursing home bed formula reports a need for 895 additional beds in Hamilton County in 2016. This request is for the replacement of a existing nursing home, and will reduce the number of licensed beds in Hamilton County.

Project Cost/Funding The cost of the project is estimated to be \$24,874,400, and will be funded by a commercial loan from Bank of Texas. A letter from Bank of Texas stating its willingness to fund this project is presented in Attachment C. Economic Feasibility.2.

Financial Feasibility The proposed facility currently has a positive cash flow from operations, and is expected to continue maintain a positive cash flow after the expansion and break-even in its third year of operation.

Staffing - The current staffing is 106 FTEs. The expected staffing, during the second year of operation, is estimated to be 120 FTES with 88 of these FTEs being clinical positions. The staffing of the facility is reviewed in detail in the Contribution to the Orderly Development of Health Care section of this application.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

- A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) Should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.**

If the project involves none of the above, describe the development of the proposal.

Response: The chart has been completed. The construction cost is estimated to be \$14,837,000 or \$185.00 per square foot.

Life Care Center of East Ridge will offer a variety of amenities. These include three dayrooms, an activity room, ice cream and gift shop, library, beauty shop, outdoor courtyards, walking paths, gazebos, fine dining and a private dining room.

There will be 108 private rooms with a direct phone line, wireless internet access and TV.

Large therapy spaces will be provided. Physical therapy, speech therapy, and occupational therapy services will be offered. Private treatment rooms will be available. State of the art therapy equipment will be included in the FF&E package. An outdoor therapy courtyard with a variety of walking surfaces and transitions will be located adjacent to the therapy gym.

The proposed 80,200 SF nursing facility will be constructed on a relatively flat \pm 14.6 acre site. The property is presently being surveyed and all preliminary information indicate this land is adequate to provide all programmatic elements of the facility. Parking quantities and landscape requirements will be designed to accent the site, and will exceed the local zoning code.

The building in this project will be constructed under the codes adopted by the local municipality and the Tennessee Department of Health. See Attachment B. Project Description II.A Codes Letter.

This single story building will be framed with metal stud walls and wood trusses. The exterior façade of the structure has not been determined. However, for project cost purposes we assume the exterior wall will be brick or simulated stone cladding, with fiber cement siding and trim accents. The proposed roofing material is an architectural fiberglass or asphalt shingle with prefinished aluminum gutters and downspouts. All resident windows will incorporate code mandated egress requirements. The proposed building also incorporates a large main entry Porte Cochere that allows three drive lanes of vehicular traffic to insuring easy all weather access to the main entry.

- B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.**

Response: The number of licensed beds will decrease from 130 to 108 as a result of this project. The distribution of the beds located in private and semi-private rooms, current and proposed, beds is presented in the following table.

Table 1
Bed Distribution

	Beds In Private Rooms	Beds In Semi-Private Rooms
Current	10	120
Proposed	108	-

SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost/ SF		
					Renovated	New	Total	Renovated	New	Total
Patient Rooms	1st & 2nd Floors	24,656		1st Floor	0	25,844	25,844			
Administration	2nd Floor	1,877		1st Floor	0	2,870	2,870			
Rehab	1st Floor	1,331		1st Floor	0	4,222	4,222			
Food Service	1st Floor	1,905		1st Floor	0	1,732	1,732			
Laundry	Other Building	578		1st Floor	0	749	749			
Patient Care Support	1st & 2nd Floors	4,577		1st Floor	0	5,915	5,915			
Activities & Lounge	1st Floor	1,452		1st Floor	0	3,826	3,826			
Storage	1st & 2nd Floors	1,276		1st Floor	0	758	758			
Dining	1st Floor	1,336		1st Floor	0	4,071	4,071			
B. Unit/Depart. GSF Sub-Total		38,998			0	49,987	49,987			
C. Mechanical/ Electrical GSF		147			0	2,757	2,757			
D. Circulation /Structure GSF		14,423			0	27,456	27,456			
E. Total GSF		53,568			0	80,200	80,200		\$185.00	\$185.00

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. **Adult Psychiatric Services**
2. **Alcohol and Drug Treatment for Adolescents (exceeding 28 days)**
3. **Birthing Center**
4. **Burn Units**
5. **Cardiac Catheterization Services**
6. **Child and Adolescent Psychiatric Services**
7. **Extracorporeal Lithotripsy**
8. **Home Health Services**
9. **Hospice Services**
10. **Residential Hospice**
11. **ICF/MR Services**
12. **Long-term Care Services**
13. **Magnetic Resonance Imaging (MRI)**
14. **Mental Health Residential Treatment**
15. **Neonatal Intensive Care Unit**
16. **Non-Residential Methadone Treatment Centers**
17. **Open Heart Surgery**
18. **Outpatient Surgery**
19. **Positron Emission Tomography**
20. **Radiation Therapy/Linear Accelerator**
21. **Rehabilitation Services**
22. **Swing Beds**

Response: Not Applicable

D. Describe the need to change location or replace an existing facility.

Response: The application is for the on-site replacement of an existing facility. The facility was built in 1975 with an addition in 1989. The 40 year old physical plant is aging and has significant space limitations. These limitations include the size of resident rooms, activity spaces, and therapy space plus the lack of space for administrative offices and storage space. The laundry is currently located in another building. The square feet per bed will be increased from 412 in the existing to 743 in the proposed, or an increase of 80 percent.

Rehabilitation services are spread throughout the facility and are crowded. The space for rehabilitation services will be increased from 1,331 square feet to 4,222 square feet. All rehabilitation services will be consolidated in this space. Large therapy spaces will be available to provide physical therapy, speech therapy, and occupational therapy services.

Private treatment rooms will be available. A simulated home kitchen and bath will be available to assist patients to return home safely by practicing cooking, cleaning, laundry tasks, etc.

Currently, the facility has only ten private rooms which do not have private showers. The proposed replacement facility anticipates all of the patient rooms will be private with full bathrooms including shower. A variety of room configurations will be offered. Each resident will have a direct phone line, wifi, and TV.

These current building has several deficiencies that will be eliminated as a result of this project. The emergency generator and wiring of the facility limit the amount of power available to support the needs of residents in a power outage. The facility is a two story building and currently has only one elevator.

The intersection from which you access the facility is very congested. As part of this project a new traffic signal will be installed. The entry drive into the site will be relocated farther from the intersection to allow a safer traffic pattern. The site will also be made safer by closing a through road on the site and eliminating a secondary point of access.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

- 1. For fixed-site major medical equipment (not replacing existing equipment):**
 - a. Describe the new equipment, including:**
 - 1. Total cost; (As defined by Agency Rule).**
 - 2. Expected useful life;**
 - 3. List of clinical applications to be provided; and**
 - 4. Documentation of FDA approval.**
 - b. Provide current and proposed schedules of operations.**

Response: Not applicable. This project does not involve any major medical equipment.

2. For mobile major medical equipment:

- a. List all sites that will be served;
- b. Provide current and/or proposed schedule of operations;
- c. Provide the lease or contract cost.
- d. Provide the fair market value of the equipment; and
- e. List the owner for the equipment.

Response: Not applicable

3. Indicate applicant's legal interest in equipment (i.e., purchase, lease, etc.) In case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Response: Not applicable

III. (A) Attach a copy of the plot plan of the site on 8 ½" x 11" sheet of white paper which must include:

- 1. Size of site (in acres);
 - 2. Location of structure on the site; and
 - 3. Location of the proposed construction.
 - 4. Names of streets, roads or highways that cross or border the site.
- Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

Response: See Attachments B.III.(A).2, B.III.(A) 1 & 3 and B.III.(A) 4

(B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

Response: The site is not currently served by public transportation routes. The proposed site is easily accessible by I-75 and US Highway 41 (Ringgold Road).

- IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on 8 ½ x 11" sheet of white paper.**

Note: DO NOT SUBMIT BLUEPRINTS. Simple line drawing should be submitted and need not be drawn to scale.

Response: See Attachment B.IV.

- V. For a Home Health Agency or Hospice, identify:**

- 1. Existing service area by County;**
- 2. Proposed service area by County;**
- 3. A parent or primary service provider;**
- 4. Existing branches; and**
- 5. Proposed branches.**

Response: Not Applicable.

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth, if applicable.
 - a. Please discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan. Please list each principle and follow it with a response.

Response: The five principals outlined in the State Health Plan of achieving better health are:

1. **The purpose of the State Health Plan is to improve the health of Tennesseans;**
 - Response: The implementation of this project will improvement the health of the residents of Hamilton County. The applicant provides a high amount of rehab inpatient and outpatient services. Currently approximately 76 percent of the patients at Life Care Center of East Ridge are receiving rehab care. The amount of rehab space will be increased from 1,331 square feet to 4,222 square feet. Large treatment space and private treatment rooms will be available. An outdoor therapy courtyard, with a variety of walking surfaces and transitions, will be located adjacent to the therapy gym.

2. Every citizen should have reasonable access to health care;

- Response: Life Care Center of East Ridge is accessible from I-75 and US Highway 41 (Ringgold Road). Accessibility will be improved by the relocation of the entry drive and the installation of a traffic light to allow a safer traffic pattern.

3. The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;

- Response: This proposed project will address the needs of the residents of the service area by replacing a 40 year old facility with a state-of-the art building with all private rooms. The demand for private beds cannot be met in the existing building. Because of lack of space in the present building, there are many economic inefficiencies created. Some of the inefficiencies are congestion, the location of the laundry in another building, lack of rehab space, etc. The replacement of the existing building will improve the system of caring for the elderly in Hamilton County.

4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers;

- Response: The applicant is licensed by the Tennessee Department of Health, and is certified by the Centers for Medicare and Medicaid Services. In addition, it is accredited by the Joint Commission for Accreditation of Healthcare Organizations. The applicant will continue to be licensed, certified, and accredited by these agencies.

5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.

- Response: Life Care works closely with Southern Adventist University, located in Hamilton County, to collaborate on the curriculum used for their Health Care Administrator's Program. Life Care Center of East Ridge also recruits graduates from the nursing and CNA programs of Cleveland State Community College and Lee University.

In summary, this project will benefit the residents of Hamilton County with improved nursing home accommodations and expanded rehab capabilities. Since the number of beds is being reduced, there should not be an adverse impact on nursing home providers in the service area.

The implementation of this proposed project furthers the ability of the residents of Hamilton County to achieve better health. Several factors will increase the accessibility better care to the aging population of Hamilton County. Some of these factors are:

- the increase in the number of private rooms from 4 to 108
- substantially more outside space (gardens, patios, space for outdoor activities, etc.)
- elimination of a congested entrance to the facility
- more space for rehab
- a larger dining room and food service

In summary, this project will benefit the residents of Hamilton County with improved nursing home accommodations and expanded rehab capabilities. Since the number of beds is being reduced, there should not be an adverse impact on nursing home providers in the service area.

- b. **Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9 of the Guidelines for Growth) here.**

Response: Two of the guidelines are applicable to this application: (1) Nursing Home Services, and (2) Construction, Renovation, Expansion, and Replacement of Health Care Institutions. The Change of Site guideline is not applicable because the new facility will be constructed on the existing site plus adjacent land already owned by the applicant.

NURSING HOME SERVICES

Public Chapter No. 1112, Senate Bill No. 2463, which passed during the 1998 legislative sessions, amended and changed the codes sections establishing the bed need formula that the Health Facilities Commission must follow when granting certificates of need for nursing home beds in Tennessee. During a fiscal year (July 1 – June 30), the Commission shall issue no more than the designated number of Medicare skilled nursing facility beds for applicants filing for a certificate of need. The number of Medicare skilled nursing facility beds issued shall not exceed the allocated number of beds for each applicant. The applicant must also specify in the application the skilled services to be provided and how the applicant intends to provide such services.

A. Need

1. **According to TCA 68-11-108, the need for nursing home beds shall be determined by apply the following population-based statistical methodology:**

$$\begin{aligned} \text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus} \end{aligned}$$

2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.

Response: Using the methodology outlined in item 1, and the population estimates developed by the Department of Health, the nursing home bed need was calculated for 2015 and 2016. An outstanding CON (Chattanooga - Hamilton County Hospital Authority - CN 1012-056) for 25 skilled beds is the only outstanding CON for nursing home beds in Hamilton County.

Table 2
Projected Bed Need – Hamilton County

Age Group	Use Rate	Population		Bed Need	
		2015	2016	2015	2016
Under 65	.0005	291,299	291,440	145.6	145.7
65-74	.0120	33,759	35,025	405.1	420.3
75-84	.0600	16,850	17,067	1,011.0	1,024.0
85+	.1500	7,365	7,392	1,104.8	1,108.8
Total	-	349,273	350,924	2,666.5	2,698.8
Existing Licensed Beds				1,779	1,779
Outstanding CONs Beds				25	25
Additional Bed Need				887	895

Source: Tennessee Population Projects 2010 – 2020, Office of Health Statistics (2013 Revision)

In 2015, an additional 887 beds will be needed in Hamilton County, and increases to 895 beds in 2016. Need for nursing home bed utilization is projected to increase in Hamilton County.

3. The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.

Response: An inventory of the licensed nursing home beds in Hamilton County is presented in the following table. There is one outstanding CON for nursing home beds in Hamilton County, CN 1012-056) for 25 skilled beds.

Table 3
Inventory Nursing Home Beds 2014
Hamilton County

Facility	Licensed Beds
Alexian Village Health & Rehabilitation	114
Consulate Health Care of Chattanooga	127
Life Care Center of Collegedale	124
Life Care Center of East Ridge	130
Life Care Center of Hixson	108
Life Care Center of Ooltewah	120
Life Care Center of Red Bank	148
NHC Healthcare, Chattanooga	207
Siskin Hospital's Subacute Rehabilitation	29
Soddy Daisy Healthcare Center	120
St. Barnabas Nursing Home	108
The Health Center at Standifer Place	444
Total	1,779

4. **“Service Area” shall mean the county or counties represented on an application as reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.**

Response: The service area for this project is Hamilton County. The majority of the population of Hamilton County resides within 30 minutes of the proposed facility.

5. **The Health Facilities Commission may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:**

- a. **All outstanding CON projects in the proposed service area resulting in a net increase beds are licensed and in operation, and**

Response: Not applicable. No new beds are requested.

- b. **All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.**

Response: Not applicable. No new beds are requested.

B. Occupancy and Size Standards:

1. **A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.**

Response: The applicant is projecting an occupancy rate in excess of 90 percent during its third year of operation.

2. **There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently non-complying with quality assurance regulations shall be considered in determining the service areas, average occupancy rates.**

Response: Not applicable. No new beds are requested.

3. **A nursing home seeking approval to expand its bed capacity must have maintained an occupancy of 95 percent for the previous year.**

Response: Not applicable

4. **A free-standing nursing home shall a capacity of at least 30 beds in order to be approved. The Health Facilities Commission may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.**

Response: The facility will contain 108 beds.

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. **Any project that includes the addition of beds, services, or medical equipment will be review under the standards for those specific activities.**

Response: Not applicable. This application does not request any additional beds, services, or medical equipment.

2. **For relocation or replacement of an existing licensed health care institution:**

- a. **The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.**

Response: The applicant had planned a major renovation to the existing facility and started a Certificate of Need application for the renovation of the existing facility in 2012. The construction costs for this renovation was estimated to be \$13,295,700. Because of this high renovation cost and because the renovated facility would not contain several advantages of all new construction, it was determined that the major renovation was not the best alternative. The estimated construction cost for this state-of-the art new facility, as described in this application, is estimated to be \$14,837,000.

- b. **The application should demonstrate that there is an acceptable existing or projected future demand for the proposed project.**

Response: During 2013, Life Care Center of East Ridge provided 30,050 days of patient care. The number of the residents over 60 years of age is rapidly increasing in Hamilton County. Between 2006 and 2016, the number of those over 60 years of age is expected to increase by 21,992 residents, or over 12 percent. The nursing home bed formula (see Table 2) determines a need for an additional 895 beds in 2016. Clearly there is a need for this nursing home.

3. **For renovation or expansions of existing licensed health care institution:**

- a. **The applicant should demonstrate that there is an acceptable existing demand for the proposed project.**

Response: Not Applicable.

- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.**

Response: Not Applicable.

- c. Applications that include a Change of Site for a health care institution, provide a response to the General Criteria and Standards (4)9a-c).**

Response: Not Applicable.

- d. Applications that include a Change of Site for a proposed new health care institution (one having an outstanding and unimplemented CON), provide a response to General Criterion and Standards (4)(a-c) of the Guidelines for Growth.**

Response: Not Applicable

- 2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.**

Response: The project is consistent with Life Care's mission of being responsive to the long-term health care needs of the community, and should direct its resources to meet those needs in a cost effective manner.

- 3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

Response: Hamilton County is the primary service area. Hamilton County is expected have a census of 349,273 in 2015. A service area map is presented in Attachment C. Need .3.

- 4. A. Describe the demographics of the population to be served by this proposal.**

Response: A selected demographic profile of the service area, compared to the state of Tennessee, is shown in the following tables. In summary, the demographics of the service area are (1) a population growth rate less than the state, (2) population of those over 60 years of age is estimated to be 83,038 in 2016, and (3) median household income is approximately five percent higher than that of the state.

Table 4
Demographic Profile
Hamilton County, Tennessee

Demographic Variable/ Geographic Area	Hamilton County	State of TN Total
Total Population – Current Year	347,451	6,588,698
Total Population – Projected Year 2016	350,924	6,710,579
Total Population - % change	1.0%	1.8%
*Target Population – Current Year (60)+	78,961	1,379,975
*Target Population – Projected Year 2016	83,038	1,459,307
Target Population - % Change	5.2%	5.8%
Target Population – Projected Year as % of Total	22.7%	20.9%
Median Age	39.0	38.0
Median Household Income	\$46,544	\$44,140
TennCare Enrollees	55,258	1,206,538
TennCare Enrollees as % of Total	16.1%	18.7%
Persons Below Poverty Level	55,605	1,118,932
Persons Below Poverty Level as % of Total	16.2%	17.3%

**Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for the discontinuance of OB services would mainly affect Females Age 15-44; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. For projects not having a specific target population use the Age 65+ population for the target population variable.*

Table 5
Hamilton County – Population Projections

Age	2006	2016	2006 – 2016 % Increase
60 – 64	16,411	23,554	43.5
65 – 74	23,039	35,025	52.0
75 – 84	15,367	17,067	11.0
85+	6,229	7,392	18.6
Subtotal (60 +)	61,046	83,038	36.0
Total	312,909	350,924	12.1

Source: Tennessee Population Projects 2000 – 2010 & 2010 – 2020,
Office of Health Statistics

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

Response: The utilization of each of the nursing home providers in the service area for the past three years is presented in Attachment C, Need.5. The utilization is summarized for all of the nursing homes in Hamilton County in the following table.

Table 6
Hamilton County Utilization
2010 -2012

Year	Licensed Beds	Patient Days	Occupancy Rate
2010	1,689	533,302	86.5%
2011	1,671	514,577	84.4%
2012	1,659	514,504	85.0%

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: The utilization data for Life Care Center of East Ridge is presented in the following table. Life Care has recently opened several new nursing facilities. The utilization projected for the first and second years of operation was based on their experience in opening these facilities.

Table 7
Life Care Center of East Ridge
Historical Utilization

Applicant Facility Historical and Projected Utilization – Part 1

Year	Licensed Beds	*Medicare-certified beds	SNF Medicare ADC	Medicaid/TennCare NF Level 1 ADC	Medicaid/TennCare NF Level 2 ADC	SNF All other Payors ADC	NF All other Payors ADC	Total ADC	Licensed Occupancy %
2011	160	160	75.7	-		4.8	20.3	100.8	63.0
2012	130	130	61.5	-	-	10.1	21.5	93.1	71.6
2013	130	130	55.9	-	-	5.3	21.1	82.3	63.3
2014	130	130	48.8	-	-	4.6	18.5	71.9	55.3
Interim Year 1	Closed								
Interim Year 2	Closed								
Interim Year – etc.	Closed								
Project Year 1	108	108	28.2	-	-	1.8	7.6	37.6	34.8
Project Year 2	108	108	53.4	-	-	3.4	14.3	71.1	65.8

*Includes dually-certified beds

Applicant Facility Historical and Projected Utilization – Part 2

Variable	2011	2012	2013	2014(P)	Year 1	Year 2
Beds	160	130	130	130	108	108
Patient days	36,790	33,963	30,050	26,238	13,707	25,934
Average Daily Census	100.8	93.1	82.3	71.9	37.6	71.1
% Occupancy	63.0	71.6	63.3	55.3	34.8	65.8

(P) Projected

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)

Response: Excluding the filing fee, the estimated project cost, as shown on the Project Costs Chart (line D), is \$24,847,400. With this project cost, the filing fee is \$45,000 and is shown on Line E of the Project Costs Chart.

- The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. This methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.

Response: The lease will have a term of 10 years with annual payments estimated to be \$1,012,000 and a FMV of \$10,120,000 for the term of the lease. The FMV of the site and construction is higher than the FMV of the lease, it was used to determine the project cost.

- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.

Response: The equipment cost is estimated to be \$1,780,000 and includes all of these items where applicable.

- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

Response: Attachment C, Economic Feasibility 1.2 presents a letter from the project architect outlining the estimated construction cost.

PROJECT COSTS CHART

A. Construction and equipment acquired by purchase	
1. Architectural and Engineering Fees	\$ 740,000
2. Legal, Administrative (Excluding CON Filing Fee), Consulting Fees	\$ 75,000
3. Acquisition of Site	\$ 3,722,400
4. Preparation of Site	\$ 1,800,000
5. Construction Costs	\$ 14,837,000
6. Contingency Fund	\$ 500,000
7. Fixed equipment (Not included in Construction Contract)	
8. Moveable Equipment (List all equipment over \$50,000)	\$ 1,780,000
9. Other (Specify) <u>permits, review fees</u>	\$ 120,000
B. Acquisition by gift, donation, or lease:	
1. Facility (FMV of Lease)	\$
2. Building only	\$
3. Land only	\$
4. Equipment	\$
5. Other (Specify) (_____)	\$
C. Financing Costs and Fees	
1. Interim Financing	\$
2. Underwriting Costs	\$ 420,000
3. Reserve for One Years Debt Service	\$ 685,000
4. Other (Specify) <u>Interest During Construction</u>	\$ 150,000
D. Estimated Project Cost (A+B+C)	\$ 24,829,400
E. CON Filing Fee	\$ 45,000
F. Total Estimated Project Cost (D+E)	\$ 24,874,400

2. Identify the funding sources for this project.

- a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.*)**

- X **A. Commercial loan—from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**
- B. Tax-exempt bonds—Copy of preliminary resolution or letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**
- C. General obligation bonds—Copy of resolution from issuing authority or minutes the appropriate meeting.**
- D. Grants—Notification of intent form for grant application or notice of grant award; or**
- E. Cash Reserves—Appropriate documentation from Chief Financial Officer.**
- F. Other—Identify and document funding from other sources.**

Response: The project will be funded with a bank loan from Bank of Texas. A letter stating the willingness to finance this project is presented in Attachment C. Economic Feasibility.2.1.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

Response: The following nursing home new construction cost per square foot data was received from the HSDA: Median - \$167.31, and a third quartile of \$176.00. This data was developed using the nursing home CON application filed between 2011 and 2013. With an anticipated construction cost of \$185.00 per square foot, the expected construction cost for this project is reasonable compared to those projects in the HSDA database.

4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

Response: These charts have been completed.

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

Response: The expected average gross charge, average deduction from operating revenue and the average net charge per patient day is as follows:

	Year 1	Year 2
Average gross charge	\$500.64	\$699.77
Average deduction	\$59.03	\$270.23
Average net charge	\$441.61	\$429.54

HISTORICAL DATA CHART (Revised)

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in Jan (Month).

		2011	2012	2013
A.	Utilization Data (Total Patient Days)	36,865	33,959	30,053
B.	Revenue from Services to Patients			
	1. Inpatient Services	15,251,547	14,367,222	13,281,983
	2. Outpatient Services	243,468	223,348	410,664
	3. Emergency Services			
	2. Other Operating Revenue	27,362	35,501	35,942
	GROSS OPERATING REVENUE	15,522,377	14,626,071	13,728,589
C.	Deductions form Operating Revenue			
	1. Contractual Adjustments	<499,760>	1,428,282	1,890,043
	2. Provision for Charity Care			
	3. Provision for Bad Debt	525,236	379,133	457,262
	Total Deductions	25,476	1,807,415	2,347,305
	NET OPERATING REVENUE	15,496,901	12,818,656	11,381,284
D.	Operating Expenses			
	1. Salaries and Wages (Includes Benefits)	7,821,515	7,256,638	6,214,395
	2. Physician's Salaries and Wages			
	3. Supplies	2,173,063	1,947,514	1,682,827
	4. Taxes	105,340	104,560	106,144
	5. Depreciation	20,701	1,731	333
	6. Rent	665,586	665,097	618,904
	7. Interest, other than Capital			
	8. Management Fees			
	a. Fees to Affiliates	774,845	640,932	571,103
	b. Fees to Non-Affiliate			
	9. Other Expenses See Page 32 *	2,643,479	2,370,861	2,179,588
	Total Operating Expenses	14,204,529	12,987,333	11,373,294
E.	Other Revenue (Expenses) - Net (Spec.)			
	NET OPERATING INCOME (LOSS)	1,292,372	<168,677>	7,990
F.	Capital Expenditures			
	1. Retirement of Principal	8,307.89	0	0
	2. Interest	230	0	2
	Total Capital Expenditures	8,537.89	0	2
	NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES	1,283,834.11	<168,677>	7,988

PROJECTED DATA CHART (Revised)

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in January (Month).

		Year 1	Year 2
A.	Utilization Data (Patient Days)	13,707	25,934
B.	Revenue from Services to Patients		
	1. Inpatient Services	6,814,500	13,590,261
	2. Outpatient Services	42,750	214,985
	3. Emergency Services		
	4. Other Operating Revenue (Specify)	5,000	12,140
	GROSS OPERATING REVENUE	6,862,250	13,817,386
C.	Deductions from Operating Revenue		
	1. Contractual Adjustments	617,826	2,497,867
	2. Provision for Charity Care		
	3. Provision for Bad Debt	191,358	180,000
	Total Deductions	809,184	2,677,867
	NET OPERATING REVENUE	6,053,066	11,139,519
D.	Operating Expenses		
	1. Salaries and Wages	3,493,767	5,036,033
	2. Physician's Salaries and Wages		
	3. Supplies	1,112,055	2,283,221
	4. Taxes	122,000	140,000
	5. Depreciation	20,000	20,000
	6. Rent	1,200,000	1,200,000
	7. Interest, other than Capital		
	8. Management Fees		
	a. Fees to Affiliates	302,653	556,976
	b. Fess to Non-Affiliates		
	9. Other Expenses (See page 32)	2,242,363	1,699,492
	Total Operating Expenses	8,190,185	10,935,722
E.	Other Revenue (Expenses)-Net (Specify)		
	NET OPERATING INCOME (LOSS)	<2,439,772>	203,797
F.	Capital Expenditures		
	1. Retirement of Principal	20,000	20,000
	2. Interest	2,500	2,500
	Total Capital Expenditures	22,500	22,500
	NET OPERATING INCOME (LOSS) LESS	<2,462,272>	181,297
	LESS CAITAL EXPENDITYURES		
	NET OPERATING INCOME (LOSS)	<2,462,272>	181,297

55
HISTORAL DATA CHART – OTHER EXPENSES

<u>OTHER EXPENSES CATEGORIES</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
1. Repair & Maintenance	\$40,382	\$57,953	\$57,054
2. Contract Services	\$488,853	\$524,826	\$452,652
3. Associated First Aid	\$10,334	\$8,468	\$9,139
4. Workers Comp	\$122,802	\$118,768	\$132,195
5. Prop/Liab Insurance	\$146,971	\$103,270	\$182,409
6. Other Expenses	\$1,834,137	\$1,557,576	\$1,346,139
Total Other Expenses	\$2,643,479	\$2,370,861	\$2,179,588

PROJECTED DATA CHART – OTHER EXPENSES

<u>OTHER EXPENSES CATEGORIES</u>	<u>Year 1</u>	<u>Year 2</u>
1. Repairs & Maintenance	\$18,253	\$32,000
2. Contract Services	\$317,083	\$440,552
3. Associated First Aid	\$7,561	\$6,164
4. Workers Comp	\$100,818	\$36,276
5. Prop/Liab. Insurance	\$141,000	\$164,235
6. Other Expenses	\$1,657,648	\$1,020,265
Total Other Expenses	\$2,242,363	\$1,699,492

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.
- B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

Response:

Response: The 2012 Joint Annual Report (JAR) of Nursing Homes charge data contains the most currently available nursing home charge data. These charges were used to compare the current charges of the nursing homes in Hamilton County. As shown in the following table, the charges at Life Care Center of East Ridge are similar to other providers in the service area.

Table 8
Daily Charge Comparisons

Facility	Medicare Skilled	Private Pay Private Room Level I
Alexian Way Care Center	\$462	\$269
Consulate Health Care	\$409	\$200
Life Care Center of Collegedale	\$482	\$228
Life Care Center of East Ridge	\$450	\$240
Life Care Center of Missionary Ridge	\$453	\$365
Life Care Center of Red Bank	\$414	\$275
NHC Chattanooga	\$459	\$208
Siskin	\$825	\$823
Soddy-Daisy Healthcare	\$423	\$190
St. Barnabas Healthcare Center	\$457	\$218
Standifer Place	\$495	\$235

Source: 2012 Joint Annual Report of Nursing Homes

The proposed facility will contain only private rooms. The expected daily room charge in the new facility is expected to be \$472 for Medicare skilled rooms and \$250 for private pay private rooms. These charges are similar to those currently in the service area.

Medicare pays nursing homes for Part A skilled nursing stays based on a prospective payment system, Resource Utilization Groups (RUGS), that categorizes each resident into a payment group depending upon his or her care and resource needs. Skilled nursing facilities determine a RUG based on 108 items on an assessment of the resident's known as the Minimum Data Set (MDS). The MDS becomes part of the patient's medical record. These 108 items are used to determine the RUG and the payment to the nursing home.

There are seven major RUG categories: Extensive Services, Special Care, Clinically Complex, Impaired Cognition, Behavior Problem, and Reduced Physical Function. These categories are further divided into 44 subcategories, each has a different Medicare payment rate. Because all Medicare reimbursement is based on this prospective payment system, there is not a practical way to compare Medicare reimbursement to the facility's charges.

The Joint Annual Report Data (JAR) was used to compare the charges at East Ridge with those of other nursing homes in the service area. As shown in the following table, the charges at East Ridge are comparable to the other nursing homes in the service area. The 2010 Joint Annual Report (JAR) of Nursing Homes charge data is the most current available nursing home charge data.

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.

Response: As shown in the Projected Data Chart, the proposed project is expected to have a positive cash flow during its second year of operation. The expected utilization rate is sufficient to maintain a cost-effective facility.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

Response: As shown in both the Projected Data Chart and the Historical Data Chart, the applicant has maintained a positive cash flow, and is expected to continue to do so after the proposed project is completed.

9. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.**

Response: The applicant will participate in the Medicare program. During the second year of operation, gross revenue from the Medicare is estimated to be \$9,880,353.

10. **Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alphanumeric order and labeled as Attachment C, Economic Feasibility-10.**

Response: The financial statements for Life Care Center of East Ridge are presented in Attachment C, Economic Feasibility.10.

11. **Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:**
- a. **A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.**

Response: As previously discussed, in 2012 a major renovation of the existing facility was considered. Because of the high cost of this renovation, a major renovation was not feasible. The proposed site is easily accessible by I-75 and US Highway 41 (Ringgold Road). A relocation to another site was not necessary.

- b. **The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.**

Response: The original plan was to renovate the existing facility. During the planning of the major renovation, it was determined that new construction was the most feasible alternative and would result a higher quality facility.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

- 1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.**

Response: Life Care operates 26 skilled nursing facilities in Tennessee. All of the facilities have transfer agreements with local hospitals. This facility has transfer agreements with the following hospitals: Erlanger Medical Center, Memorial Health Care System, Memorial North Park, Parkridge East Hospital, Parkridge Valley, and Skyridge.

Managed care, ancillary care (ambulance services, laboratory, etc.), and a hospice agreement are in place. Managed care agreements have been developed with Blue Advantage, Care Improvement, Cigna, Colonial Pen, Coventry, Health Springs, Humana, Nationwide, SS Healthcare, TriCare, UHC, and Windsor.

- 2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

Response: This applicant is requesting to replace a 40 year old 130 bed facility with a 108 bed state-of-the-art facility on the existing site. The effects of this proposal is only positive on the health care system.

The replacement of the building will require the closing of the existing nursing home for approximately three years. Since Life Care Center of East Ridge has very high number of Level II (skilled Nursing care) who have a short length of stay. At the present time, there are 58 Level II patients and only eleven Level I (intermediate care) patients. The length of stay of the Level II patients is approximately 34 days. If admissions of new patients is suspended 45 days before the building is closed, most of the Level II patients not need to be transferred to another nursing home. The Level I patients will be encouraged to transfer to Life Care Center of Collegedale which is a distance of 11 miles and has a similar charge structure.

3. **Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.**

Response: During the first year of operation, the patient care staffing is expected to be 87.5 FTEs. This staff includes 6 registered nurses, 16 licensed practical nurses, 32 certified nurse aides, 18 physical therapists, 3.5 speech therapists, and 12 occupational therapists. The expected salary, compared to those of the Tennessee Department of Labor & Workforce Development, is presented in the following table.

Table 9
Salary Comparisons

Position	Expected Wage	State Median Wage
Registered Nurse	\$23.00	\$27.30
Licensed Practical Nurse	\$18.00	\$17.10
Certified Nursing Technician	\$11.50	\$11.30
Physical Therapist	\$36.00	\$40.05
Speech Therapist	\$33.00	\$35.45
Occupational Therapist	\$33.00	\$38.10

4. **Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.**

Response: The applicant has operated in the state for many years, and has always been successful in attracting and retaining adequate professional and support staff. The expected total staffing, during the first year of operation, is 120 FTES . The applicant does not anticipate a problem in recruiting this staff.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.***

Response: As indicated in other parts of this application, the applicant has operated in the State of Tennessee for over 40 years. The management company has been operating in the State of Tennessee since 1976, and manages 26 other nursing homes in the state.

Therefore, the management team and the management company are very familiar with, and understand all licensing and certification requirements of the State of Tennessee.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).

Response: Initially, the applicant is not planning to participate in the training of students.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

Response: As noted in the response to question 5, Life Care has extensive experience in long term care, and is familiar with the Tennessee Department of Health's licensure requirements. The facility will be certified with Medicare. Life Care manages the operations of approximately 230 facilities currently certified by the Medicare program. The applicant understands the requirements of the various governmental authorities.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Response: Licensure: Life Care Center of East Ridge is licensed by the Tennessee Department of Health. A copy of the current license is presented in Attachment Orderly Development 7.(b).1

Certification: (1) Medicare – Centers for Medicare and Medicaid Services.

Accreditation: It is accredited by the Joint Commission for Accreditation of Healthcare Organization. A copy of the certificate is presented in Attachment Orderly Development 7.(b).2.

If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

- (c) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.

Response: A copy of the last inspection, the correction action plan and final clearance letter are presented in Attachment Orderly Development 7.(c).1.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

Response: None

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

Response: None

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

Response: The applicant currently provides, and will continue to provide, appropriate agencies information concerning the number of patients treated, type of procedures performed, etc.

63
PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

Response: Attached is the full page from the newspaper containing the notice of intent.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

- 1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

Response: The chart is completed

- 2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the "good cause" for such an extension.**

Response: Because of the anticipated time required to complete this project, the applicant is requesting an extension of 12 months or a total time of 36 months.

Form HF0004
Revised 05/03/04
Previous Forms are obsolete

PROJECT COMPLETION FORECAST CHART

October 24, 2014
2:56pm

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): January 15, 2015. Assuming the CON approval becomes the final agency action on that date; indicate the number of days from the above agency decision date to each phase of the completion forecast.

<u>Phase</u>	<u>DAYS REQUIRED</u>	<u>Anticipated Date (MONTH/YEAR)</u>
1. Architectural and engineering contract signed	30	January/2015
2. Construction documents approved by the Tennessee Department of Health	203	July/2015
3. Construction contract signed	233	August/2015
4. Building permit secured	264	September/2015
5. Site preparation completed	356	December/2015
6. Building construction commenced	387	January/2016
7. Construction 40% complete	538	June/2016
8. Construction 80% complete	691	November/2016
9. Construction 100% complete (approved for occupancy)	872	May/2017
10. *Issuance of license	902	June/2017
11. *Initiation of service	932	July/2017
12. Final Architectural Certification of Payment	962	August/2017
13. Final Project Report Form (HF0055)	993	September/2017

* For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

The applicant is requesting 36 months to complete this project.

**ATTACHMENT B. PROJECT DESCRIPTION II.A
CODES LETTER**



Franklin Associates, Architects, Inc.

142 N Market St . PO Box 4048 . Chattanooga . TN 37405

423.266.1207

September 24, 2014

Ms. Linda Cross
Life Care Centers of America
3001 Keith Street, NW
Cleveland, TN 37312

Re: Life Care Centers of America -
108-Bed Skilled Nursing Facility
East Ridge, Tennessee
for
East Ridge Medical Investors, LLC.

Dear Ms. Cross

We have reviewed the codes required for the proposed 108-bed skilled nursing facility in East Ridge, Tennessee. Since there are two sets of codes required at this location, we will use the most stringent where conflicts occur. The following codes will be adopted by the reviewing authorities:

Tennessee Department of Health Code Requirements:

1. 2006 International Building Code
2. 2006 International Plumbing Code
3. 2006 International Mechanical Code
4. 2006 International Fuel Gas Code
5. 2006 NFPA1, excluding NFPA 5000
6. 2006 NFPA 101 Life Safety Code
7. 2005 National Electrical Code
8. 2002 North Carolina Accessibility Code with 2004 Amendments
9. 2010 Americans with Disabilities Act (ADA)
10. 2010 Guidelines for Design and Construction of Health Care Facilities
11. 2007 ASHRAE Handbook of Fundamentals

Ms. Linda Cross
page 2
September 24, 2014

The City of East Ridge, TN Code Requirements:

1. 2012 International Building Code (excluding Chapter 11)
2. 2012 International Plumbing Code
3. 2012 International Mechanical Code
4. 2012 International Fuel Gas Code
5. 2009 International Energy Conservation Code
6. 2012 International Fire Code
7. 2011 National Electric Code
8. 2009 ANSI A117.1 (National Standard) Accessibility Code
9. 2012 NFPA 101 Life Safety Code

To the best of my knowledge and belief, the proposed project will be designed and built to conform to applicable federal standards, manufacturer's specifications, and licensing agencies requirements.

If you have any further questions, please feel free to contact us at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Wyatt Leonard". The signature is stylized with a large initial "W" and "L".

Wyatt Leonard, AIA
Architect

ATTACHMENT B.III.(A).1 & 3

- 1. SIZE OF SITE (IN ACRES) – ± 14.6 ACRES**
- 2. LOCATION OF PROPOSED CONSTRUCTION**

RINGGOLD
ROAD

SIGN

MCDONALD
ROAD

+/- 14.6
ACRES

INTERSTATE
I-75
ON RAMP

FLAG
PAVILION

GARAGE

108 BED - 1 STORY
SKILLED NURSING
FACILITY

BUILDING AREA

1st FLOOR 80,200 S.F.

PARKING

H/C 8 SPACES
REGULAR 132 SPACES
TOTAL 140 SPACES

BED COUNT

100 WING 42 BEDS
200 WING 31 BEDS
300 WING 35 BEDS
TOTAL = 108 ROOMS (108 BEDS)

42 PRIVATE RMS.

31 PRIVATE RMS.

35 PRIVATE RMS.



franklin architects

30 September 2014

Life Care Center of East Ridge
Skilled Nursing Facility

69

East Ridge, Tennessee

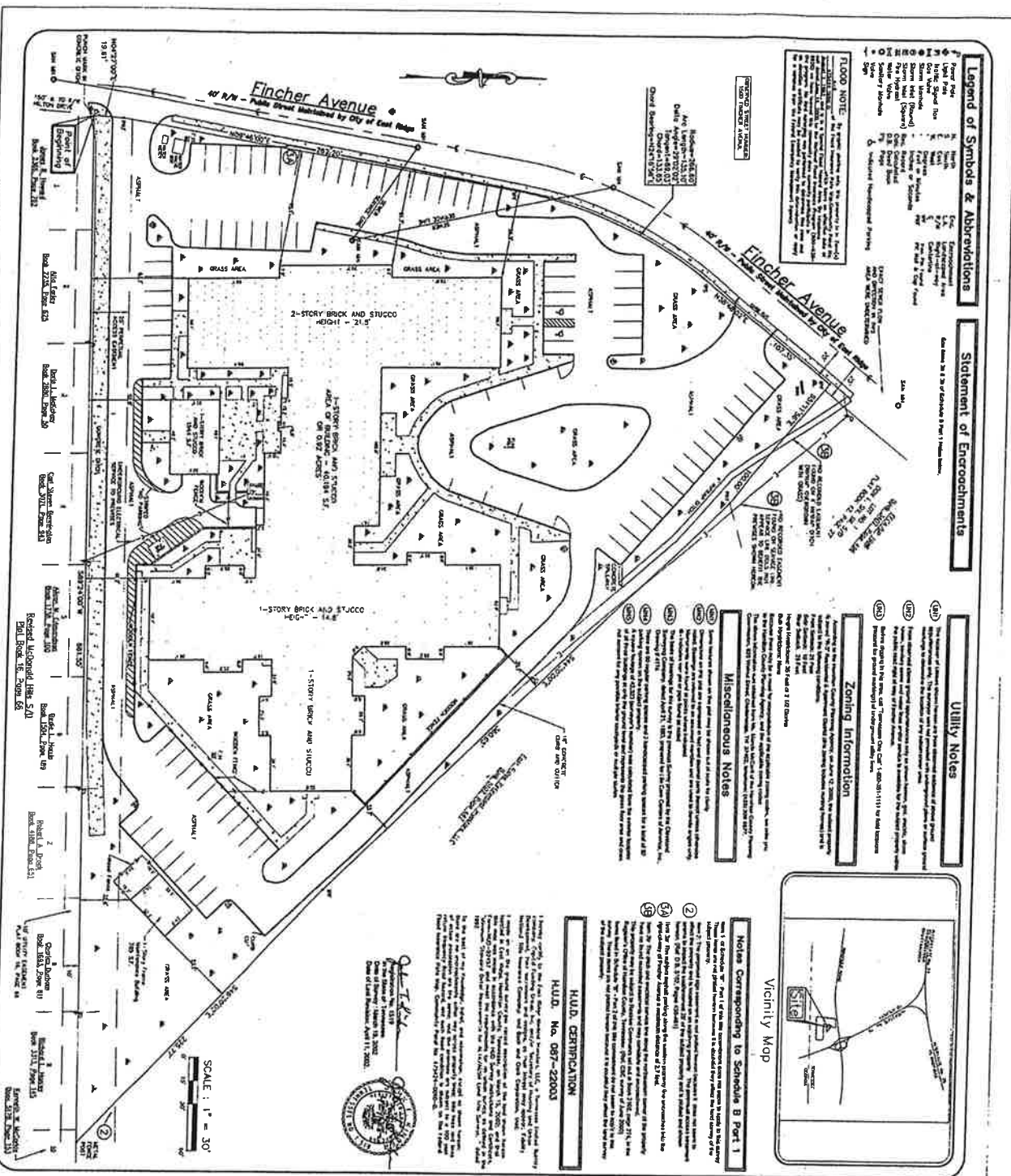
Preliminary Site Plan
Scale = 1" = 40'-0"



SITE PLAN
Scale: 1" = 40'-0"



ATTACHMENT B.III.(A).2
EXISTING STRUCTURE ON SITE



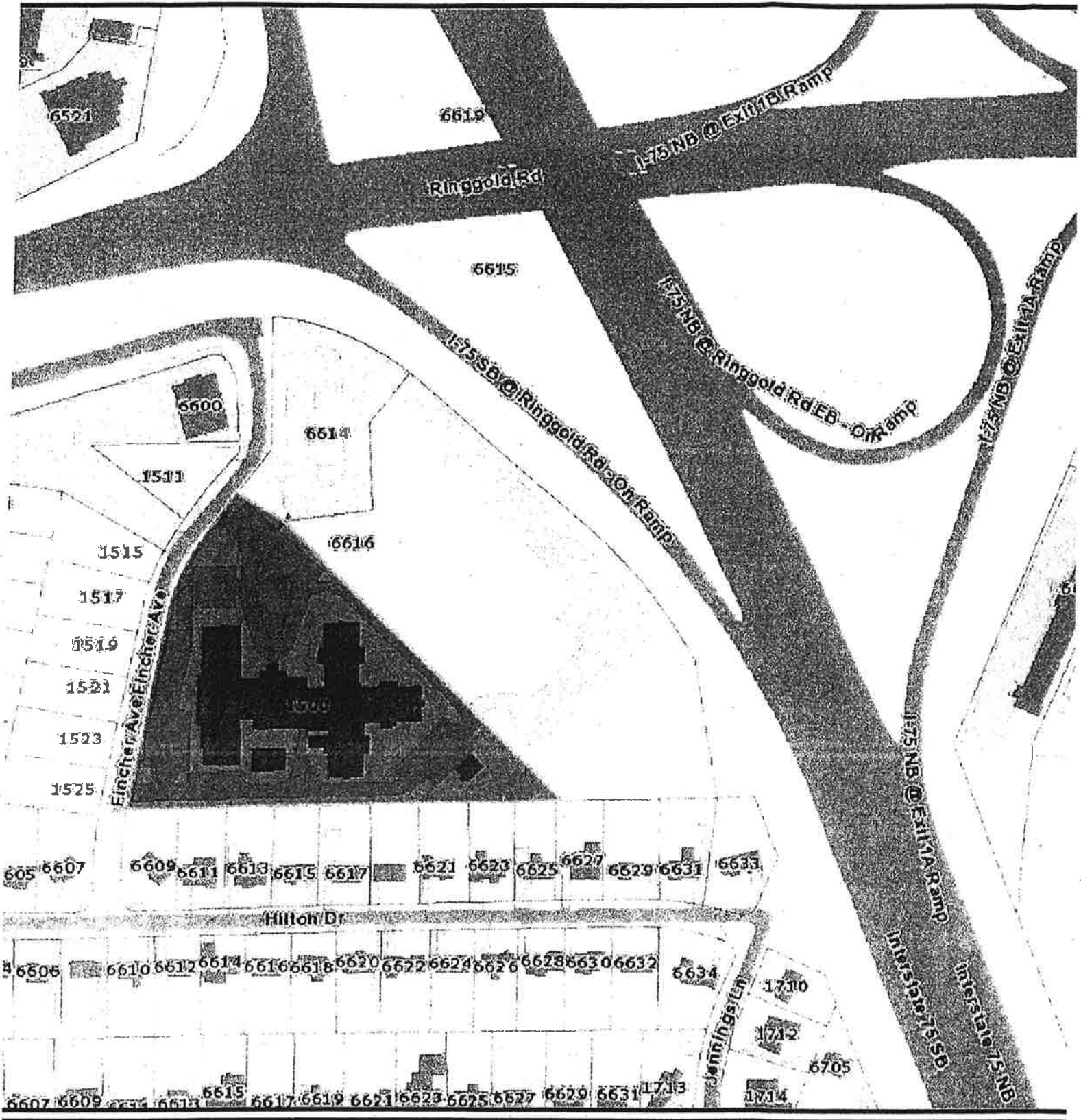
Legal Description

[illegible]

ALTA/ACSM Land Title Survey
Life Care Refinance / LC2 Project
Closed & Ready for File 10/26/23

[illegible]

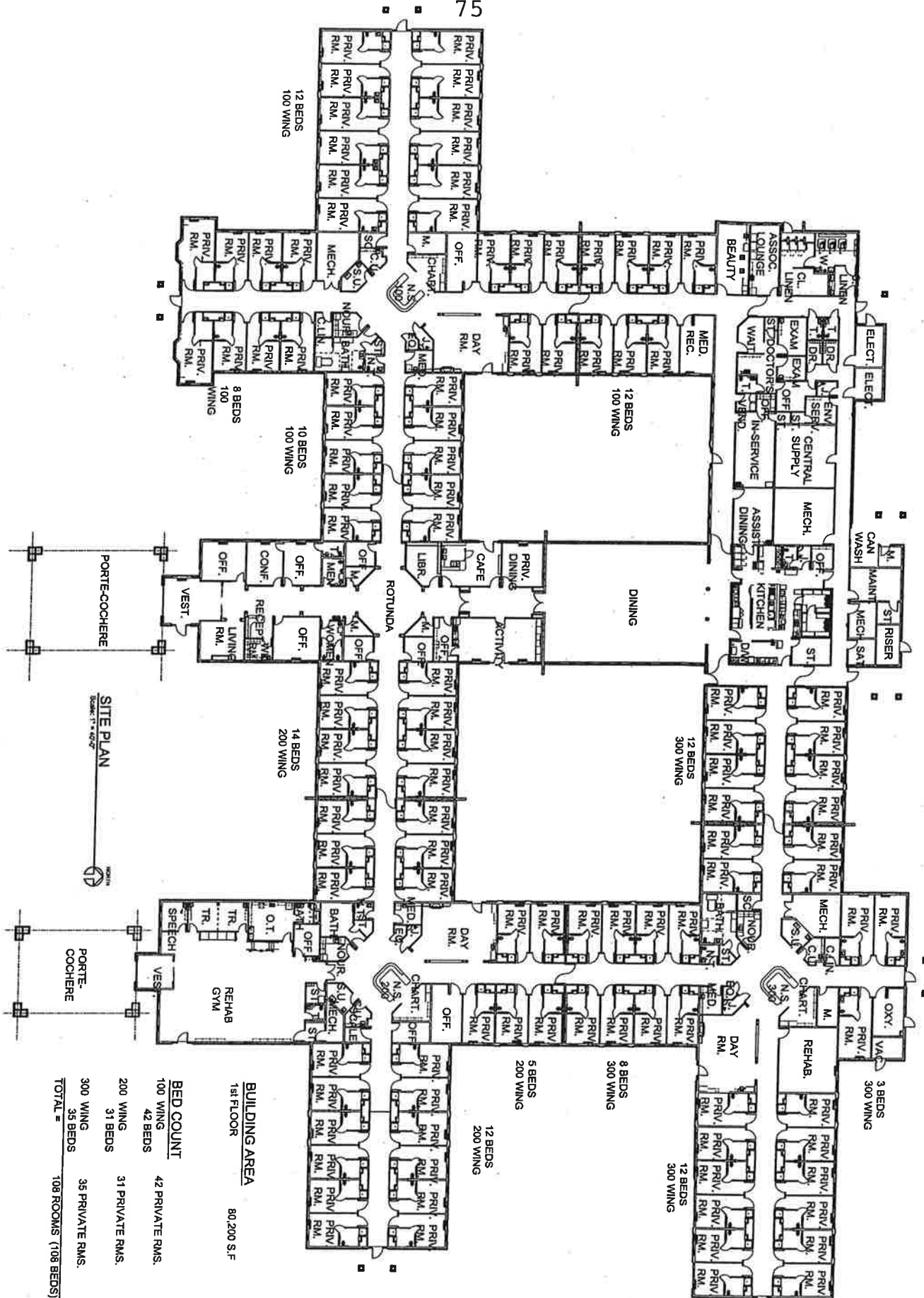
ATTACHMENT B.III.(A).4**NAMES OF STREETS, ROADS OF HIGHWAYS THAT
BORDER THE SITE**



The Map Title

The Subtitle

**ATTACHMENT B.IV
COPY OF PROPOSED FLOOR PLAN DRAWING**



ATTACHMENT C, NEED.3 SERVICE AREA MAP

**ATTACHMENT C, NEED.5
HISTORICAL UTILIZATION DATA**

Attachment C, Need.5
2010 - Historical Bed Utilization
Hamilton County

Facility	Licensed Beds	SNF- Beds Medicare	SNF/NF Beds Dully Certified	NF – Beds Medicaid/ Tncare	Licensed Only Beds Non Cert	SNF Medicare Tncare ADC	NF Level 1 Medicaid ADC	SNF All Other Payors ADC	NF All Other Payors ADC	Total ADC
Alexian Village	114	114	-	-	-	14.9	85.3	-	-	87.8
Consulate Health Care	127	-	127	-	-	20.2	100.2	-	-	94.8
Life Care Center of Collegedale	124	-	124	-	-	33.8	82.3	-	-	93.6
Life Care Center of East Ridge	160	-	160	-	-	88.3	25.9	-	-	71.4
Life Care Center of Missionary Ridge	78	-	78	-	-	10.9	49.6	-	-	77.6
Life Care Center of Red Bank	148	-	148	-	-	39.0	100.2	-	-	94.0
NHC Healthcare Chattanooga	207	-	145	62	-	120.9	65.3	-	-	90.0
Siskin Hospital Rehabilitation	29	-	29	-	-	25.3	0.0	-	-	87.2
Soddy Daisy Healthcare Center	120	-	120	-	-	26.7	75.0	-	-	84.8
St. Barnabas Nursing Home	108	-	108	-	-	30.6	64.7	-	-	88.3
The Health Care Center – Standifer Place	474	-	304	170	-	135.1	267.2	-	-	84.9

Total	1,689	114	1,343	232	-	545.7	915.7	-	-	86.5
-------	-------	-----	-------	-----	---	-------	-------	---	---	------

Attachment C, Need.5
2011 - Historical Bed Utilization
Hamilton County

Facility	Licensed Beds	SNF- Beds Medicare	SNF/NF Beds Dully Certified	NF – Beds Medicaid/ Tncare	Licensed Only Beds Non Cert	SNF Medicare TnCare ADC	NF Level 1 Medicaid ADC	SNF All Other Payors ADC	NF All Other Payors ADC	Total ADC
Alexian Village	114	114	-	-	-	21.7	-	-	80.5	89.7
Consulate Health Care	127	-	127	-	-	14.4	-	-	105.2	94.1
Life Care Center of Collegedale	124	-	124	-	-	31.3	-	-	62.6	75.8
Life Care Center of East Ridge	160	-	160	-	-	80.5	-	-	20.3	77.5
Life Care Center of Missionary Ridge	108	-	108	-	-	34.1	-	-	25.2	29.6
Life Care Center of Red Bank	130	-	130	-	-	32.9	-	-	95.9	99.1
NHC Healthcare Chattanooga	207	-	1145	62	-	90.4	-	-	89.7	87.0
Siskin Hospital Rehabilitation	29	-	29	-	-	25.2	-	-	0.0	86.8
Soddy Daisy Healthcare Center	120	-	120	-	-	25.3	-	-	75.4	83.9
St. Barnabas Nursing Home	108	-	108	-	-	31.5	-	-	64.8	89.1
The Health Care Center – Standifer Place	474	-	170	304	-	132.8	-	-	270.6	85.1
Total	1,671	114	1,191	366	-	494.9	-	-	915.4	84.4

**ATTACHMENT C. ECONOMIC FEASIBILITY.1.2
LETTER FROM PROJECT ARCHITECT OUTLINING
THE ESTIMATED CONSTRUCTION COSTS**

**October 24, 2014
2:56pm**

**ATTACHMENT 9
REVISED CONSTRUCTION LETTER**

October 24, 2014
2:56pm



Franklin Associates, Architects, Inc.

142 N Market St . PO Box 4048 . Chattanooga . TN 37405

423.266.1207

October 20, 2014

Ms. Linda Cross
Life Care Centers of America
3001 Keith Street, NW
Cleveland, TN 37312

Re: Life Care Centers of America -
108-Bed Skilled Nursing Facility
East Ridge, TN for
East Ridge Medical Investors, LLC

Dear Ms. Cross:

We have reviewed the project Square Footage and Cost per Square Footage Chart that has been prepared for the CON to the State of Tennessee for the proposed skilled nursing facility located off McDonald Road in East Ridge, TN. Based on the information shown in this form, and historical budgeting information, we estimate the project cost to be \$17,877,000. This figure is based on the following line items:

- | | |
|--------------------------------|--------------|
| a. A/E fees: | \$740,000 |
| b. Site Preparation cost: | \$1,800,000 |
| c. Building Construction cost: | \$14,837,000 |
| d. Contingency fund: | \$500,000 |

To the best of my knowledge and belief, the facility will meet the 2010 AIA standards as noted in the Guideline for Design & Construction of Health Care Facilities and all applicable local, state and federal standards.

Sincerely,

Wyatt Leonard, AIA
Architect

SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART- 9-30-14

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost / SF		
					Renovated	New	Total	Renovated	New	Total
Resident Rooms	LCC of East Ridge	24,656	-----	New Nursing Home	0	25844	25,844	\$0.00	\$185.00	\$4,781,140.00
Administration	LCC of East Ridge	1,887	-----	New Nursing Home	0	2870	2,870	\$0.00	\$185.00	\$530,950.00
Rehab	LCC of East Ridge	1,331	-----	New Nursing Home	0	4222	4,222	\$0.00	\$185.00	\$781,070.00
Food Service	LCC of East Ridge	1,905	-----	New Nursing Home	0	1732	1,732	\$0.00	\$185.00	\$320,420.00
Laundry	LCC of East Ridge	578	-----	New Nursing Home	0	749	749	\$0.00	\$185.00	\$138,565.00
Patient Care Support Area	LCC of East Ridge	4,577	-----	New Nursing Home	0	5915	5,915	\$0.00	\$185.00	\$1,094,275.00
Activities & Lounge	LCC of East Ridge	1,452	-----	New Nursing Home	0	3826	3,826	\$0.00	\$185.00	\$707,810.00
Storage	LCC of East Ridge	1,276	-----	New Nursing Home	0	758	758	\$0.00	\$185.00	\$140,230.00
Dining	LCC of East Ridge	1,336	-----	New Nursing Home	0	4071	4,071	\$0.00	\$185.00	\$753,135.00
B. Unit/Depart. GSF Sub-Total	LCC of East Ridge	38,998		New Nursing Home	0	49,987	49,987	\$130.00	\$185.00	\$9,247,595.00
C. Mechanical / Electrical GSF	LCC of East Ridge	147	-----	New Nursing Home	0	2,757	2,757	\$130.00	\$185.00	\$510,045.00
D. Circulation /Structure GSF	LCC of East Ridge	14,423	-----	New Nursing Home	0	27,456	27,456	\$130.00	\$185.00	\$5,079,360.00
E. Total GSF	LCC of East Ridge	53,568		New Nursing Home	0	80,200	80,200	\$130.00	\$185.00	\$14,837,000.00

ATTACHMENT C. ECONOMIC FEASIBILITY.2.1 FUNDING LETTER

**October 24, 2014
2:56pm**

**ATTACHMENT 10
REVISED BANK LETTER**

October 24, 2014
2:56pm



Bianca Andujo
Bank of Texas
5956 Sherry Lane # 700
Dallas, TX 75209

October 2, 2014

Life Care Centers of America, Inc.
Forrest L. Preston
3570 Keith Street, NW
Cleveland, Tennessee 37312

RE: Life Care Center of East Ridge

Dear Forrest:

We are excited to discuss the opportunity to finance the replacement of your facility in East Ridge, Tennessee. This sounds like an exciting project that will clearly serve the East Ridge area well by delivering the care and services that today's seniors need and desire. As you are aware, Bank of Texas has successfully worked with you and your companies over the past several years and has provided you with financing for multiple projects.

Subject to your adhering to our applicable underwriting criteria, we are interested to work with you on the replacement of Life Care Center of East Ridge. Based on our typical loan parameters, we anticipate that the project can support a loan sufficient to fund up to 100% of the costs which you anticipate to be \$24,874,400. The interest rate would be established at closing, but would be approximately 4% if we closed today. The loan term would be 5 years with interest only during construction and lease-up. I know you are aware of our construction financing process and our capabilities based on our previous successful experiences with one another.

Bank of Texas looks forward to reviewing your loan proposal once you have obtained the necessary Certificate of Need from the State.

Sincerely,

A handwritten signature in cursive script that reads "Bianca Andujo".

Bianca Andujo
Sr. Vice President

ATTACHMENT C. ECONOMIC FEASIBILITY.10
FINANCIAL STATEMENTS

EAST RIDGE
EAST RIDGE
WORKING TRIAL BALANCE
December 31, 2013

09/30/14 PAGE 1
17:02

AUDITWTR

ACCOUNT NUMBER	DESCRIPTION	PRIOR YEAR YTD	PER BOOKS YTD	ADJUSTMENTS DR CR	AS ADJUSTED	W/P REFER	RECLASSIFICATION DR CR	REPORT
	CASH							
111114	OPERATING CASH LOCAL - CAP	1,000.00	1,000.00					
111121	PAYROLL CASH	10.22-	505.42					
111129	PAYROLL CLEARING	848.74-						
111131	PETTY CASH	500.00	500.00					
111139	PETTY CASH	300.00	300.00					
	TOTAL CASH	941.04	2,545.74					
	ACCOUNTS & NOTES RECEIVABLE							
	PATIENT RECEIVABLES							
112105	A/R REFUND CLEARING		3,996.00-					
229020	DEFERRED REVENUE		95,456.00-					
112110	A/R PRIVATS	160,053.00-						
112130	A/R M'CARE A	103,736.08	83,577.61					
112135	A/R M'CARE A COINSURANCE	583,924.89	622,672.23					
112138	A/R M'CARE CLEARING	583,561.53	630,001.96					
112140	A/R M'CARE B	591.51						
112145	A/R M'CARE B COINSURANCE	10,631.16	46,681.86					
112148	A/R M'CARE B CLEARING	7,768.32	10,771.07					
112150	A/R VA/HOSP	308.03						
112160	A/R SNP INS/CONTRACT	716.56	571.20					
112160	A/R INSURANCE PART B	418,583.23	464,760.33					
		14,300.13	55,387.43					
	TOTAL PATIENT RECEIVABLES	1,561,468.16	1,811,971.69					
	ALLOWANCE FOR BAD DEBTS							
112119	A/R PRI B/D ALLOW	19,934.30-						
112139	A/R M'CARE A SEQUESTATION A		121,529.64-					
112149	A/R M'CARE B SEQUESTATION A		12,453.44-					
			933.64-					
	TOTAL ALLOW FOR BAD DEBTS	19,934.30-	134,916.72-					
	NET PATIENT A/R	1,544,534.16	1,677,054.97					
	OTHER ACCOUNTS RECEIVABLE							
112400	A/R EMPLOYERS							
112471	M'CARE A BAD DEBT 2011	4,422.76	1,224.60					
112472	M'CARE A BAD DEBT 2012	12,035.97						
112473	M'CARE A BAD DEBT 2013	97,832.93						
112474	M'CARE A BAD DEBT 2014	238,243.55	37,409.40-					
112510	A/R LOCA FACILITY		148,824.04					
112515	A/R - RELATED PARTY	24,025.65	14,790.82					
		172,707.47	28,211.63					
	TOTAL OTHER A/R	549,258.33	155,641.69					
	NOTES RECEIVABLE							
	TOTAL A/R & N/R	2,093,802.49	1,832,696.66					

EAST RIDGE
EAST RIDGE
WORKING TRIAL BALANCE
December 31, 2013

PAGE 3

09/30/14
17:02
AUDITWTE

REPORT

RECLASSIFICATION
DR CR

W/P
REFER

AS
ADJUSTED

ADJUSTMENTS
DR CR

PRIOR YEAR
YTD

PER BOOKS
YTD

12,512,023.88 12,121,113.66

ACCOUNT
NUMBER

DESCRIPTION

TOTAL ASSETS

EAST RIDGE
EAST RIDGE
WORKING TRIAL BALANCE
December 31, 2013

09/30/14 PAGE 2
17:02
AUDITWTE

ACCOUNT NUMBER	DESCRIPTION	PER YEAR YTD	PER BOOKS YTD	ADJUSTMENTS DR CR	AS ADJUSTED	W/P REFER	RECLASSIFICATION DR CR	REPORT
	SUPPLIES & OTHER CURRENT							
114219	PREPAID OTHER INSUR	1,112.82	1,112.82					
114241	PREPAID DUES	10,023.00	10,023.00					
114251	PREPAID LEASE	1,027.71	1,027.71					
114291	PREPAID OTHER		210.00					
114292	PREPAID OTHER		300.00					
114293	PREPAID OTHER	1,800.00	1,800.00					
	TOTAL SUPPLIES/OTHER CURREN	12,935.82	14,473.53					
	TOTAL CURRENT ASSETS	2,107,679.35	1,849,715.93					
	LAND & IMPROVEMENTS							
	BUILDING & IMPROVEMENTS							
122301	CONSTRUCTION IN PROGRESS	53,295.63	53,295.63					
122700	LEASEHOLD IMPROVEMENTS	100,839.01	100,839.01					
	TOTAL BLDGS & IMPROVEMENTS	154,134.64	154,134.64					
122800	EQUIPMENT, FURN & FIXTURES							
	TRANSPORTATION EQUIPMENT	98,151.01	98,151.01					
	TOTAL EQUIP, FURN & FIXTURE	98,151.01	98,151.01					
	LEASED PROP UNDER CAP LEASE							
	ACCUMULATED DEPRECIATION							
122709	ACCUM DEPR 1/2	98,854.77	99,187.59					
122809	ACCUM DEPR TRANS EQUIP	98,151.01	98,151.01					
	TOTAL ACCUMULATED DEPR	197,005.78	197,338.60					
	NET PROPERTY & EQUIPMENT	55,275.87	54,947.05					
	OTHER ASSETS							
129230	RESIDENT TRUST FUNDS	0.01	0.01					
129400	INSURANCE RECOVERIES RECEIVABL	202,351.79						
	TOTAL OTHER ASSETS	202,351.80	0.01					
	ACCUMULATED AMORT OTH ASSETS							
	NET OTHER ASSETS	202,351.80	0.01					
223150	INTERCOMPANY							
	LCCA DUE TO/FROM - OWNED	10,146,712.86	10,216,450.87					
	TOTAL INTERCOMPANY	10,146,712.86	10,216,450.87					

EAST RIDGE
EAST RIDGE
WORKING TRIAL BALANCE
December 31, 2013

09/30/14 PAGE 4
17:02
AUDITWIS

ACCOUNT NUMBER	DESCRIPTION	PRIOR YEAR YTD	PER BOOKS YTD	ADJUSTMENTS DR CR	AS ADJUSTED	W/P REFER	RECLASSIFICATION DR CR	REPORT
	ACCOUNTS PAYABLE							
211110	TRADE ACCOUNTS PAYABLE	423,511.14	337,372.65					
211220	A/P MONTH END ACCRUAL	7,484.93	2,318.82					
	TOTAL ACCOUNTS PAYABLE	430,996.07	339,691.47					
	ACCURED EXPENSES							
213112	FEDERAL UNEMPLOY TAX PAY	49.77	73.14					
213114	FICA EMPLOYERS PORTION	13,934.92	13,284.32					
213122	STATE UNEMPLOY TAX PAY	176.40	187.43					
213174	401K W/H	3,115.68	2,039.07					
213210	ACCURED SALARIES	176,807.88	160,874.93					
213220	ACCURED VACATION & SICK	196,004.68	151,094.68					
213240	ACCURED AUDIT FEES	2,785.00	2,650.00					
213320	GARNISHMENTS	595.59	364.92					
	TOTAL ACCURED EXPENSES	393,469.92	330,568.49					
	NOTES PAYABLE							
	CRAT MATURITIES OF L/T DEBT							
	TOTAL CURRENT LIABILITIES	824,465.99	670,259.96					
	LONG TERM DEBT							
	DEFERRED INCOME TAXES & OTHER							
229016	UNCLAIMED PROPERTY 1998+	219.39	128.87					
229030	RESIDENT TRUST FUND	0.01	0.01					
229058	NEP: ACCURED TAIL/EXCESS LIAB	115,757.25	116,300.74					
229059	NEP: ACCURED RETRO PROF LIABIL	29,410.14	12,104.05					
229400	ACCURED LIABILITY RISKS	202,351.79						
	TOTAL DEF TAXES & OTHER	248,918.30	128,533.67					
	FRTR'S CAP/STCKHLDERS EQUITY							
301202	INVESTMENT IN SPE/MEMBER	466,222.29	381,915.08					
302300	EARNED CAPITAL/RET'D EARNINGS	11,101,095.17	10,932,417.30					
	Y-T-D NET INCOME (LOSS)	168,677.87	7,987.85					
	TOTAL PRTR/CAP/RET EARNING	11,396,619.59	11,322,320.23					
	TOTAL LIABILITIES & EQUITY	12,512,023.88	12,121,113.86					

PER BOOKS YTD 12/31/13

EAST RIDGE
EAST RICO
Statement of Income - YTD
December 31, 2013

2 EASTERN
0006

CUMBERLAND

Page 1
09/30/16
17:03

DESCRIPTION	YTD	PER DAY	BUDGETED YTD	PER DAY	PRIOR YEAR YTD	PER DAY	BUDGET VARIANCE	PRIOR YEAR VARIANCE
EMPLOYE DAYS FOR PERIOD	30,053	62.34	35,770	98.00	33,959	92.78	5,717-	3,906-
REVENUES								
ROUTINE REVENUE	5,974,170	198.79	7,046,713	197.00	6,509,409	191.60	1,072,543-	535,239-
INCIDENTAL REVENUE	7,466,433	248.44	6,820,107	246.58	7,925,163	233.37	1,353,674-	458,730-
FRUIT & REVENUE	252,044	8.39	340,951	9.53	155,990	4.59	88,907-	96,046
OTHER OPERATING REVENUE	35,942	1.20	16,593	0.46	35,501	1.05	19,349	441
GROSS REVENUE	13,728,589	456.81	14,224,364	453.57	14,626,071	430.70	2,495,775-	897,402-
DEDUCTIONS FROM REVENUE								
PART B CONTRA	2,255,124	75.04	2,361,119	66.01	1,765,625	51.99	105,895	489,499-
TOTAL DEDUCTIONS FROM REVENUE	2,347,305	78.11	2,452,284	68.56	1,807,415	53.22	1,016-	50,391-
NET REVENUE	11,381,284	378.71	13,772,080	385.02	12,818,656	377.47	2,390,795-	1,437,372-
OPERATING EXPENSES								
SALARIES & RELATED TAXES	5,580,633	185.69	6,054,007	169.25	6,350,108	188.17	473,374	809,475
RENTS	557,416	18.55	794,461	22.21	725,731	21.37	237,045	160,315
ADMIN COMP	76,346	2.54	86,640	2.42	140,799	4.15	10,294	64,453
TOTAL SALARY COSTS	6,214,395	206.78	6,935,108	193.88	7,216,638	213.69	720,713	1,042,243
SUPPLIES	1,682,827	56.00	2,035,740	56.91	1,947,514	57.35	352,913	264,687
E & M	57,054	1.90	46,815	1.31	57,953	1.71	10,239-	894
CONTRACT SERVICES	452,652	15.06	526,998	14.73	524,826	15.45	74,346	72,174
ASSOCIATE FIRST AID	9,139	0.30	9,155	0.26	8,468	0.25	16	673
WORKERS COMP	172,195	4.40	123,431	3.45	110,768	3.50	8,762-	13,421-
PROP/LIAB INSURANCE	162,409	6.07	137,860	3.85	103,270	3.04	44,549-	79,139-
TAXES	106,144	3.53	108,242	3.03	104,560	3.08	2,101	1,584-
OTHER EXPENSES	1,345,499	44.77	1,514,168	42.33	1,557,426	45.86	168,669	211,927
TOTAL OPERATING EXPENSES	10,182,314	338.81	11,437,522	319.75	11,679,423	343.93	1,255,208	1,497,109
OPERATING MARGIN	1,198,970	39.90	2,334,558	65.27	1,139,233	33.55	1,135,566-	59,737
OPERATING MARGIN	10.53		16.95		0.89		6-	2
NON OPERATING EXPENSES								
MANAGEMENT FEES	571,103	19.00	688,604	19.25	640,932	19.17	117,501	69,829
DEPRECIATION & AMORT	353	0.01	2,651	0.07	1,731	0.05	2,718	1,399
INTEREST EXP	2						2-	2-
RENT & LEASE EXP	610,904	20.59	562,044	15.71	665,097	19.59	56,860-	46,193
OTHER EXPENSES	640	0.02	153		150		487-	490-
TOTAL NON OPERATING EXP	1,190,962	39.63	1,253,452	35.04	1,307,910	38.91	62,470	116,928
PRE TAX PROFIT	7,960	0.27	1,081,106	30.22	168,677-	4.97-	1,073,118-	176,665

**ATTACHMENT. ORDERLY DEVELOPMENT.7(b).2
COPY OF ACCREDITATION CERTIFICATE**



July 27, 2012

Doyle R. Love, RN, CNIA, FACHCA
LED
Life Care Center of East Ridge
1500 Pincher Avenue
East Ridge, TN 37412

Joint Commission ID #: 118980
Program: Long Term Care Accreditation
Accreditation Activity: 60-day Evidence of
Standards Compliance
Accreditation Activity Completed: 07/27/2012

Dear Mr. Love:

The Joint Commission would like to thank your organization for participating in the accreditation process. This process is designed to help your organization continuously provide safe, high-quality care, treatment, and services by identifying opportunities for improvement in your processes and helping you follow through on and implement these improvements. We encourage you to use the accreditation process as a continuous standards compliance and operational improvement tool.

The Joint Commission is granting your organization an accreditation decision of Accredited for all services surveyed under the applicable manual(s) noted below:

Comprehensive Accreditation Manual for Long Term Care

This accreditation cycle is effective beginning May 25, 2012. The Joint Commission reserves the right to shorten or lengthen the duration of the cycle; however, the certificate and cycle are customarily valid for up to 36 months.

Please visit [Quality Check®](#) on The Joint Commission web site for updated information related to your accreditation decision.

We encourage you to share this accreditation decision with your organization's appropriate staff, leadership, and governing body. You may also want to inform the state or regional regulatory services, and the public you serve of your organization's accreditation decision.

Please be assured that The Joint Commission will keep the report confidential, except as required by law. To ensure that The Joint Commission's information about your organization is always accurate and current, our policy requires that you inform us of any changes in the name or ownership of your organization or the health care services you provide.

Sincerely,

A handwritten signature in cursive script that reads 'Mark G. Polletier'.

Mark G. Polletier, RN, MS
Chief Operating Officer
Division of Accreditation and Certification Operations

**ATTACHMENT. ORDERLY DEVELOPMENT.7(c).1
COPY OF LAST INSPECTION, THE CORRECTION
ACTION PLAN AND THE FINAL CLEARANCE
LETTER**



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
7175 STRAWBERRY PLAINS PIKE, SUITE 103
KNOXVILLE, TENNESSEE 37914

March 24, 2014

Mr. Benjamin Zani, Administrator
Life Care Center of East Ridge
1500 Fincher Avenue
East Ridge TN 37412

Re: 44-5296

Dear Mr. Zani:

The East Tennessee Regional Office of Health Care Facilities conducted a Health and Life Safety recertification survey/complaint investigation on January 21 - 23, 2014. An on-site revisit and review of the facilities plan of correction for the deficiencies cited as a result of the survey was conducted on March 12, 2014. Based on the on-site revisit and review, we are accepting your plan of correction and your facility is in compliance with all participation requirements as of February 14, 2014.

If you have any questions concerning this letter, please contact our office at (865) 594-9396.

Sincerely,

A handwritten signature in cursive script that reads "Karen Kirby/apl".

Karen B. Kirby, R.N.
Regional Administrator
ETRO Health Care Facilities

KK:af1

From:

02/06/2014 09:39

4948 P.003/011

2014-02-05 14:57

DC0547PM13501

8652125642 >>

P 2/10



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
7175 STRAWBERRY PLAINS PIKE, SUITE 103
KNOXVILLE, TENNESSEE 37914

IMPORTANT NOTICE - PLEASE READ CAREFULLY

February 5, 2014

Mr. Benjamin Zani, Administrator
Life Care Center of East Ridge
1500 Fincher Avenue
East Ridge TN 37412

RE: 44-6296

Dear Mr. Zani:

The East Tennessee Regional Office of Health Care Facilities conducted a Health and Life Safety Code recertification survey/complaint investigation on January 21 - 23, 2014. This letter to you is to serve as notice that as a result of the survey completed January 23, 2014, your facility was not in substantial compliance with the participation requirements of Medicare and/or Medicaid Programs. A statement of deficiencies (CMS 2567) is being provided to you with this letter.

If you do not achieve substantial compliance by March 9, 2014 (45th day), our office will recommend to the Centers for Medicare & Medicaid Services (CMS) and/or the State Medicaid Agency that enforcement remedies be imposed.

All references to regulatory requirements contained in this letter are found in Title 42, Code of Federal Regulations.

Mandatory Remedies

If you do not achieve substantial compliance by April 23, 2014, (3 months after the last day of the survey identifying noncompliance January 23, 2014), the CMS Regional Office and/or State Medicaid Agency must deny payments for new admissions.

We will also recommend to the CMS Regional Office that your Provider Agreement be terminated on July 23, 2014, if substantial compliance is not achieved by that time.

Please note that this notice does not constitute formal notice of imposition of alternative remedies or termination of your provider agreement. Should the Centers for Medicare and Medicaid Services determine that termination or any other remedy is warranted, it will provide you with a separate formal notification of that determination.

From:

02/06/2014 09:40

#948 P.004/011

2014-02-05 14:58

DC0547PM13501

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P 3/10

Mr. Benjamin Zani, Administrator
February 5, 2014
Page 2

Plan of Correction (POC)

A POC for the deficiencies must be submitted by February 15, 2014. Failure to submit an acceptable POC by February 15, 2014, may result in the imposition of remedies by March 9, 2014.

Your POC must contain the following:

What corrective action(s) will be accomplished for those residents found to have been affected by the deficient practice;

How you will identify other residents having the potential to be affected by the same deficient practice and what corrective action will be taken;

What measures will be put into place or what systematic changes you will make to ensure that the deficient practice does not recur; and

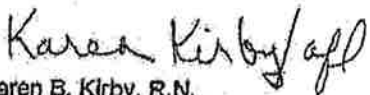
How the corrective action(s) will be monitored to ensure the deficient practice will not recur; i.e., what quality assurance program will be put into place.

INFORMAL DISPUTE RESOLUTION

In accordance with 488.891, you have one opportunity to question cited deficiencies. You may request a Face to Face IDR for substandard level deficiencies, harm level deficiencies and immediate jeopardy level deficiencies. All other deficiencies will receive a desk review (telephone or written) by the Regional Office that cited the deficiency. These requests must be made within the same 10-calendar day period that you have for submitting an acceptable plan of correction and must contain additional justification as to why the deficiency(ies) should not have been written for harm level deficiencies or other deficiencies that are not substandard or immediate jeopardy. Evidence to dispute the scope and severity levels may only be submitted for substandard or immediate jeopardy deficiencies. Additional information which must be submitted with your request for an IDR is limited to no more than five (5) typed pages with a font size of no less than ten (10). If the facility is requesting a desk review in addition to a face to face IDR, the facility must submit two separate requests with their plan of correction to the State Survey Agency at the address on this letter, telephone 865-588-5656 or fax number 865-594-5739. An incomplete Informal Dispute Resolution process will not delay the effective date of any enforcement action.

If you have any questions, please contact the East Tennessee Regional Office by phone: 865-588-5656 or by fax: 865-594-5739.

Sincerely,



Karen B. Kirby, R.N.
Regional Administrator
ETRO Health Care Facilities

KK:af

Enclosure

CENTERS FOR MEDICARE & MEDICAID SERVICES

FORM APPROVED
OMB NO. 0938-0391

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: 445296	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____	(X3) DATE SURVEY COMPLETED 01/23/2014
---	---	--	---

NAME OF PROVIDER OR SUPPLIER

LIFE CARE CENTER OF EAST RIDGE

STREET ADDRESS, CITY, STATE, ZIP CODE

1500 FINCHER AVENUE

EAST RIDGE, TN 37412

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE
F 000	INITIAL COMMENTS	F 000		
F 456 SS=F	<p>A recertification survey and complaint investigation #32359 were completed on January 21 - January 23, 2014, at Life Care Center of East Ridge. No deficiencies were cited related to complaint investigation #32359 under 42 CFR Part 483, Requirements for Long Term Care Facilities.</p> <p>483.70(c)(2) ESSENTIAL EQUIPMENT, SAFE OPERATING CONDITION</p> <p>The facility must maintain all essential mechanical, electrical, and patient care equipment in safe operating condition.</p> <p>This REQUIREMENT is not met as evidenced by: Based on observation, review of facility policy, and interview, the facility failed to maintain essential kitchen equipment in safe operating condition.</p> <p>The findings included:</p> <p>Observation in the dietary department on January 21, 2013, at 11:30 a.m., revealed a foul odor present in the area adjacent to the hot water temperature booster and beneath the garbage disposal. Continued observation revealed three approximately ten inch sections of cut two by four boards lying on the floor beneath the garbage disposal. Continued observation revealed the boards and floor were coated in damp, black, debris. Continued observation revealed the presence of blackened debris present on the dishwasher control box.</p>	<p>This plan of correction is submitted and required under Federal and State regulations and is applicable to long term care providers. The plan of correction does not constitute an admission of liability on the part of the facility and such liability is hereby specifically denied. The submission of this plan of correction does not constitute agreement by the facility that the surveyor's findings or conclusions are accurate, that the findings constitute a deficiency, or that the scope or severity regarding any of the deficiencies cited is correctly applied.</p> <p>F456</p> <p>1. CORRECTIVE ACTION Water booster was removed by maintenance director, water lines were repaired, and electrical box re-installed all on 1/21/14. Floor boards were removed by maintenance director and area was thoroughly cleaned by kitchen staff on 1/21/14. State inspector examined area later in day and found area to be in compliance.</p> <p>2. IDENTIFICATION OF OTHER RESIDENTS No other equipment was found to be defective by maintenance director on 1/21/14.</p>	2/14/14 2/14/14 17	

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

A deficiency statement ending with an asterisk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that the safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 90 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 days following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued grant participation.

From:

02/14/2014 08:45

#065 P.003/008

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

PRINTED: 02/03/2014
FORM APPROVED
OMB NO. 0938-0391

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: 445296	(X2) MULTIPLE CONSTRUCTION A. BUILDING _____ B. WING _____		(X3) DATE SURVEY COMPLETED 01/23/2014
NAME OF PROVIDER OR SUPPLIER LIFE CARE CENTER OF EAST RIDGE			STREET ADDRESS, CITY, STATE, ZIP CODE 1600 FINCHER AVENUE EAST RIDGE, TN 37412		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE	
F 456	<p>Continued From page 1</p> <p>Review of facility policy, Preventative Maintenance Water and Plumbing System, revised March 2004 revealed "...maintenance personnel will perform preventative maintenance and corrective actions..."</p> <p>Interview with the Dietary Manager on January 21, 2014, at 11:40 a.m., in the dietary department confirmed the hot water temperature booster was leaking and the floor beneath the garbage disposal was soiled after maintenance personnel recently attempted repair of the garbage disposal.</p> <p>Interview with the Maintenance Director, on January 21, 2014, at 11:45 a.m., in the dietary department confirmed the boards were to have been removed, the floor beneath the garbage disposal cleaned after the repairs, and confirmed the facility had failed to maintain the water temperature booster which was leaking onto the kitchen floor.</p>	F 458	<p>F456 Cont...</p> <p>3. SYSTEMATIC CHANGES Kitchen equipment being inspected weekly by maintenance director for functionality and safety. Dishet now being sanitized by kitchen staff with chemical solution, rather than with water booster.</p> <p>4. MONITORING OF CORRECTIVE ACTION Maintenance Director will inspect kitchen equipment weekly for four weeks and monthly for three months and present findings to QA/PI committee for following 3 months. The Executive Director will monitor this process monthly to ensure continued compliance.</p>	2/14/14	

Ben Zai

From

02/14/2014 08:45

#065 P.004/008

Division of Health Care Facilities

FORM APPROVED

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TN3308	(X2) MULTIPLE CONSTRUCTION A. BUILDING: _____ B. WING: _____	(X3) DATE SURVEY COMPLETED 01/23/2014
--	--	--	--

NAME OF PROVIDER OR SUPPLIER

STREET ADDRESS, CITY, STATE, ZIP CODE

LIFE CARE CENTER OF EAST RIDGE

1600 FINCHER AVENUE
EAST RIDGE, TN 37412

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X6) COMPLETE DATE
N 001	1200-8-6 Initial Comments This Rule is not met as evidenced by: A licensure survey and complaint investigation #32359 were completed on January 21 - January 23, 2014, at Life Care Center of East Ridge. No deficiencies were cited related to complaint investigation #32359 under Chapter 1200-8-6, Standards for Nursing Homes.	N 001		
N 433	1200-8-6-.04(24) Administration (24) The facility shall develop a concise statement of its charity care policies and shall post such statement in a place accessible to the public. Authority: T.C.A. §§4-5-202, 4-5-204, 39-17-1803, 39-17-1804, 39-17-1805, 68-11-202, 68-11-204, 68-11-206, 68-11-209, 68-11-225, 68-11-254, 68-11-256, 68-11-257, 68-11-268, 68-11-906, and 7-1-6-121. This Rule is not met as evidenced by: Based on observation and interview, the facility failed to post the facility's charity care policy in a place accessible to the public. The findings included: Observation with the Administrator on January 23, 2014, at 1:00 p.m., in the facility lobby and main hallway revealed no posting of the facility's charity care policy. Interview with the Administrator, at the time of the observation, in the facility lobby confirmed the	N 433	<p>N433</p> <p>1. CORRECTIVE ACTION On January 23, 2014, the Administrator posted the facility's charity care policy on the "Providing the Right Care at the Right Time" poster, which is located in the front lobby next to the dining room. The policy states that "This facility does not discriminate according to a resident's financial status. This facility does provide Charity Care."</p> <p>2. IDENTIFICATION OF OTHER RESIDENTS Other residents could be directly affected by this.</p> <p>3. SYSTEMATIC CHANGES The facility plans to inform residents, upon admission, of its Charity Care policy going forward.</p> <p>4. MONITORING OF CORRECTIVE ACTION The administrator plans to check the "Providing the Right Care at the Right Time" poster at least three times per week for a four week span, reporting the findings to the QAPI committee for three months.</p>	2/14/14

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

STATE FORM

6000

TYL011

Executive Director

2/14/14

If continuation sheet 1 of 2

From:

02/14/2014 08:45

#065 P.005/008

Division of Health Care Facilities

FORM APPROVED

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION	(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TN3308	(X2) MULTIPLE CONSTRUCTION A. BUILDING: _____ B. WING: _____	(X3) DATE SURVEY COMPLETED 01/23/2014
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NAME OF PROVIDER OR SUPPLIER

STREET ADDRESS, CITY, STATE, ZIP CODE

LIFE CARE CENTER OF EAST RIDGE

1500 FINCHER AVENUE
EAST RIDGE, TN 37412

(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
N 433	Continued From page 1 facility had failed to post it's own charity care policy.	N 433		

Division of Health Care Facilities
STATE FORM

8000

TYLD11

If continuation sheet 2 of 2



From:

02/14/2014 08:45

#065 P.006/008

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICESPRINTED: 01/24/2014
FORM APPROVED
OMB NO. 0938-0391

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: 445296	(X2) MULTIPLE CONSTRUCTION A. BUILDING 01 - MAIN BUILDING 01 B. WING _____		(X3) DATE SURVEY COMPLETED 01/21/2014
NAME OF PROVIDER OR SUPPLIER LIFE CARE CENTER OF EAST RIDGE			STREET ADDRESS, CITY, STATE, ZIP CODE 1500 FINCHER AVENUE EAST RIDGE, TN 37412		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE	
K 038 SS=D	<p>NFPA 101 LIFE SAFETY CODE STANDARD</p> <p>Exit access is arranged so that exits are readily accessible at all times in accordance with section 7.1. 19.2.1</p> <p>This STANDARD is not met as evidenced by: Based on observations, it was determined the facility failed to arrange exit access readily available at all times.</p> <p>The findings included:</p> <p>1. Observation in the corridor by the elevator equipment room on 1/21/14 revealed a door equipped with delayed egress, but did not have the proper signage.</p> <p>2. Observation in the corridor by the elevator equipment room revealed two delayed egress doors in the path of egress. It was also observed that the doors to the stairway on the second floor were equipped with delayed egress, resulting in more than one delayed egress lock in the path of egress.</p> <p>These findings were acknowledged by the Director of Plant Operations and the facility administrator during the exit interview on 1/21/14.</p>	K 038	<p>K038</p> <p>1. CORRECTIVE ACTION</p> <p>Per TN licensed architect recommendation, a "Not an Exit" sign was installed by the Maintenance Director in the corridor by the elevator room on 2/12/14.</p> <p>Also, Per TN licensed architect recommendation, a "Not an Exit" sign was installed by Maintenance Director on the second floor center stairwell door on 2/12/14.</p> <p>2. IDENTIFICATION OF OTHER RESIDENTS</p> <p>All delayed egress locks were assessed by the Maintenance Director on 1/21/14 to assure that no other locks have two delayed egress locks in the path of egress.</p> <p>3. SYSTEMATIC CHANGES</p> <p>Maintenance Director to perform quarterly inspections to ensure that no two delayed egress locks are in the path of egress.</p> <p>4. MONITORING OF CORRECTIVE ACTION</p> <p>Safety and QA/PI committee will assess the quarterly documentation from Maintenance Director. The Executive Director will monitor this process monthly to ensure continued compliance.</p>	2/17/14	
K 147 SS=D	<p>NFPA 101 LIFE SAFETY CODE STANDARD</p> <p>Electrical wiring and equipment is in accordance with NFPA 70, National Electrical Code, 9.1.2</p>	K 147			

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

A deficiency statement ending with an asterisk (*) denotes a deficiency which the institution may be excused from correcting providing it is determined that the safeguards provide sufficient protection to the patients. (See instructions.) Except for nursing homes, the findings stated above are disclosable 60 days following the date of survey whether or not a plan of correction is provided. For nursing homes, the above findings and plans of correction are disclosable 14 days following the date these documents are made available to the facility. If deficiencies are cited, an approved plan of correction is requisite to continued program participation.

From:

02/14/2014 08:46

#065 P.007/008

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

PRINTED: 01/24/2014
FORM APPROVED
OMB NO. 0938-0391

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: 445296	(X2) MULTIPLE CONSTRUCTION A. BUILDING 01 - MAIN BUILDING 01 B. WING _____		(X3) DATE SURVEY COMPLETED 01/21/2014
NAME OF PROVIDER OR SUPPLIER LIFE CARE CENTER OF EAST RIDGE			STREET ADDRESS, CITY, STATE, ZIP CODE 1500 FINCHER AVENUE EAST RIDGE, TN 37412		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETION DATE	
K 147	<p>Continued From page 1</p> <p>This STANDARD is not met as evidenced by: Based on observation, it was determined the facility failed to maintain the electrical system.</p> <p>The finding included:</p> <p>Observation on 1/21/14 at 11:51 AM revealed the electric panels in the 100 hall, next to room 208, and next to 223 in the corridors were not locked.</p> <p>This finding was acknowledged by the director of plant operations and the facility administrator during the exit interview on 1/21/14.</p>	K 147	<p>K147</p> <ol style="list-style-type: none"> CORRECTIVE ACTION The Maintenance Director looked the electric panels in question on 1/21/14, and inspected all of the electric panels in the building the same day. Now, stronger locks were ordered during the week of 2/3/14 and installed by Maintenance Director onto electrical boxes on 2/7/14. IDENTIFICATION OF OTHER RESIDENT No other electric panels were found to be unlocked at the time. SYSTEMATIC CHANGES Panels are being inspected weekly to ensure proper locking is taking place, as well as upon use of panels. MONITORING OF CORRECTIVE ACTION Maintenance Director will inspect panels weekly and present findings to QAPI committee for 3 months. The Executive Director will monitor this process monthly to ensure continued compliance. 	2/4/14	

From:

02/14/2014 08:46

#065 P.008/008

PRINTED: 01/24/2014
FORM APPROVED

Division of Health Care Facilities

STATEMENT OF DEFICIENCIES AND PLAN OF CORRECTION		(X1) PROVIDER/SUPPLIER/CLIA IDENTIFICATION NUMBER: TN3308	(X2) MULTIPLE CONSTRUCTION A. BUILDING: 01 - MAIN BUILDING 01 B. WING _____	(X3) DATE SURVEY COMPLETED 01/21/2014
NAME OF PROVIDER OR SUPPLIER LIFE CARE CENTER OF EAST RIDGE		STREET ADDRESS, CITY, STATE, ZIP CODE 1500 FINCHER AVENUE EAST RIDGE, TN 37412		
(X4) ID PREFIX TAG	SUMMARY STATEMENT OF DEFICIENCIES (EACH DEFICIENCY MUST BE PRECEDED BY FULL REGULATORY OR LSC IDENTIFYING INFORMATION)	ID PREFIX TAG	PROVIDER'S PLAN OF CORRECTION (EACH CORRECTIVE ACTION SHOULD BE CROSS-REFERENCED TO THE APPROPRIATE DEFICIENCY)	(X5) COMPLETE DATE
N 002	1200-8-6 No Deficiencies Based on observations, testing, and records review on 1/21/14, it was determined the facility was in compliance with the Life Safety Code requirements of the Tennessee Department of Health, Board of Licensing Health Care Facilities and Chapter 1200-08-06 Standards for Nursing Homes and its referenced publications.	N 002		2/14/14

Division of Health Care Facilities

LABORATORY DIRECTOR'S OR PROVIDER/SUPPLIER REPRESENTATIVE'S SIGNATURE

TITLE

(X6) DATE

DATE FORM

0500

TYLD21

Executive Director

2/14/14

If continuation sheet 1 of 1

**ATTACHMENT
PROOF OF PUBLICATION**

OCT 14 14 PM 12:28

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF BRADLEY

Joan E. Thurmond, Assistant Secretary of Life Care Centers of America, Inc., being first duly sworn, says that she is Assistant Secretary of the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

Life Care Centers of America, Inc.

By: *Joan E. Thurmond*
Joan E. Thurmond, Assistant Secretary

Sworn to and subscribed before me this 13th day of October, 2014 a Notary
(Month) (Year)
Public in and for the County/State of Bradley County, Tennessee

Becky Richmond
NOTARY PUBLIC

My commission expires 2-7-2017



COPY- SUPPLEMENTAL-1

**Life Care Center of East Ridge
CN1410-044**

October 24, 2014
2:56pm

**LIFE CARE CENTERS OF AMERICA
dba LIFE CARE CENTER
OF EAST RIDGE**

SUPPLEMENTAL INFORMATION

**CERTIFICATE OF NEED
APPLICATION CN1410-044
OCTOBER 23, 2014**

1. **Section A. 6 (Site Control)** - The draft facility lease agreement is noted. The Agency will need a fully executed (signed by both parties) lease agreement, or a fully executed (signed by both parties) option to lease which demonstrates the applicant has a legitimate legal interest in the property on which it intends to locate the project. A fully executed (signed by both parties) Option to Lease must at least include the expected term of the lease and the anticipated lease payments.

Response: See Attachment 1

2. **Section A. 11 (Medicaid Provider Number)** - Since the applicant's bed complement chart indicates that the 108 beds will be Medicare-certified only, please explain how the applicant expects to obtain a Medicaid Provider Number. Additionally, according to a TennCare representative in response from an inquiry by Melanie Hill, HSDA Executive Director, nursing homes are explicitly prohibited from serving a subset of Medicaid applicants and if they participate in the Medicaid program, must serve all Medicaid residents, regardless of level of reimbursement. Please explain how the applicant expects to be Medicaid certified for Level II only.

Response: The Centers for Medicare and Medicaid Services (CMS) requires State Medicaid programs to establish a mechanism for non-Medicaid providers to bill the Medicaid program for Medicare coinsurance (crossover claims) incurred by a Medicare patient who has Medicaid coverage (dully eligible beneficiary). The purpose of the Medicaid provider number is to provide the facility the means to bill for Medicare coinsurance. Attachment 2 is a bulletin from CMS which outlines State Medicaid agencies obligation to reimburse for these crossover patients.

The only mechanism Tennessee Medicaid has to process crossover claims for dually eligible beneficiaries is the Medicaid II provider number. The facility is willing to become a Level II Medicaid provider to avoid the State Medicaid program from having to develop an alternative claims process mechanism to meet CMS' requirement to process crossover claims. The facility is aware it must accept Medicaid beneficiaries who qualify for the Medicaid Level II service; however, there are very few, if any, beneficiaries who meet the Medicaid Level II care criteria where Medicaid is the primary payor. The facility's preference is that the State Medicaid program meet the Federal government's requirement to provide a claims processing mechanism for crossover claims for non-Medicaid providers. Life Care Center of Hixson and Life Care Center of Ooltewah are also Medicaid Level II providers only.

3. **Section A. 13 (TennCare Participation)** - Please explain why the applicant intends to be Medicaid certified but not treat TennCare patients.

Response: Because CMS requires State Medicaid programs to reimburse non-Medicaid providers for the copayments and deductibles for these crossover patients.

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4. Section B, Project Description, Item I - The applicant has requested three years to complete the proposed project. Please provide the reasons for the additional year being requested.

Response: It is difficult to complete all of the construction documents, receive regulatory approvals, construct the facility, and receive licensure inspections within two years.

Life Centers of America has recently completed five new facilities in Tennessee. All of these projects required over two years to complete and 36 months was requested and approved for all of these projects. These projects are Life Care Center of Missionary Ridge (CN0904-016), Life Care Center of Hickory Woods (CN0906-029), Life Care Center Old Hickory Village (CN0908-030), Life Care Center of Rhea County (CN1101-004), and Colonial Hills Nursing Center (CN1208-039).

If the current facility is to close during construction, please clarify how the applicant intends to retain its licensure status until the opening of the new facility.

Response: If a Certificate of Need is granted, it will no longer be necessary to maintain the existing license.

Please discuss in detail the transition process of the nursing home residents from the current nursing home to the proposed nursing home.

Response: Currently approximately 82 percent of the patients are Level II (SNF) patients which have an average length of stay of approximately 34 days. Approximately 45 days before the scheduled date of closing the facility, admissions of Level (SNF) patient will be discontinued. Therefore, most of the Level II (SNF) of the patients will be discharged before the facility closes. The remaining of these patients will be transferred to another facility.

There are approximately 18 Level I (SNF) patients in the facility. Approximately 45 days before the scheduled closing date, admissions of Level I (NF) patients will be

discontinued. The patients in the facility will be encouraged to transfer to Life Care Center of Collegedale. The charge structure at Life Care Center of Collegedale is very similar to that at Life Care Center of East Ridge and is located only 11 miles from the current facility.

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If the proposed facility does not overlap the site of the current facility, please explain how the land located under and around the existing facility will be utilized after demolition of the current facility.

Response: The total acreage of this site provides the opportunity for future expansion that could include an assisted living facility and a retirement facility.

Did the applicant consider designing the facility in a manner consistent with the Greenhouse concept/Eden alternative? Please explain.

Response: The design of this facility does incorporate several Green House Project concepts. Each resident room has a private bathroom with a shower, and the shared common areas such as the three dayrooms and the library are all always open for resident use. This allows freedom from scheduling. The facility has a warm inviting décor and multiple common rooms and outdoor spaces for the resident to enjoy. There is wireless internet available throughout the facility plus a large channel lineup on the provided TV service and a direct dial phone line to each room. The nurse call systems use pagers and the corridors are carpeted to reduce the noise levels. The windows into each room are 60% larger than required by code to provide plenty of sunlight into the resident's room. In addition there are three exterior courtyards plus walking paths, a putting green, and beautiful landscaping to encourage time outdoors.

Can the dining area seat 108 residents in one sitting? Please explain.

Response: The dining room will seat 87. The assisted dining room seats 12. The dayrooms have seating for 24 (8 each). This totals 123. In room meals can be ordered from a restaurant style menu at any time.

The applicant reports the current facility only has 4 private rooms. However, the 2012 Joint Annual Report for the applicant reports 13 private rooms. Please clarify.

Response: The facility was built with 3 private rooms. Because of the demand for private rooms, nine semi-private rooms were converted to private rooms.

5. **Section B, Project Description, Item II.A. - The codes letter in the attachment is noted. However, please clarify if the newly constructed nursing home will be fully sprinkled.** October 24, 2014
2:56pm

Response: Yes, the building will be fully sprinkled.

6. **Section C. Need 1.a. (Service Specific Criteria-Construction, Renovation, Expansion, and Replacement of Health Care Institutions) (2) (a.) - Your response to this item is noted. Please compare the cost of the renovation project to the cost of the replacement projects in cost per bed terms.**

Response: The renovation cost per bed is higher than the new construction as proposed in this application.

	Beds	Construction Cost	Cost per Bed
New Construction	108	\$14,837,000	\$137,352
Renovation	118	\$16,292,080	\$138,068

7. **Section C. Need, Item 2 - The long range goals of the applicant are noted. Please clarify if the proposed facility is designed in a manner to expand in the future.**

Response: Should future expansion of this facility be desired by the ownership, the facility is designed to permit expansion, and the site is large enough for a building addition.

8. **Section C. Need, Item 6 - Table 7 on page 25 is noted. However, please clarify why the applicant reduced licensed beds from 160 to 130 from the year 2011 to 2012.**

Response: A certificate of need application (CN0806-038) was filed to relocate Life Care Center of Missionary Ridge to new site in Hixson, and increase the licensed beds from 78 to 108, with the additional 30 beds being moved from Life Care Center of East Ridge. Because there were only 21 beds in the bed pool, only 21 additional beds were approved. A second application (CN0904-016) was filed and approved to transfer the remaining 9 beds from Life Care Center of East Ridge to Life Care Center of Missionary Ridge. The decision to move the beds to the new site was made in order to utilize these beds at higher rate.

The average daily census of 100.8 in 2011 and 71.9 in 2014 is noted. Why did the average daily census drop 40% during this time period?

Response: From 2009 to 2011, Life Care Center of Collegedale had beds closed during a renovation of the facility. After the renovation was completed in 2011, a

portion of the referrals that were going to Life Care Center of East Ridge shifted back to Life Care Center of Collegedale.

**October 24, 2014
2:56pm**

What year does the applicant expect to reach 90% for the new proposed 108 bed facility?

Response: The applicant is expecting an occupancy rate of 90 percent during its third year of operation.

9. Section C, Economic Feasibility, Item 1 (Project Cost Chart) - What is included in the \$1,800,000 Preparation of Site cost?

Response: Beyond the typical site work costs of storm water and other site utility work, this site will require significant fill to be imported to raise the finish floor level 4-6 feet above 100 year flood level. A screen wall is being built along the exit ramp onto the interstate. Other items include a new traffic signal, road work to create a new entrance to the site, and demolition of the existing facility.

The Preparation of Site Cost is \$1,800,000 in the Project Costs Chart and \$1,500,000 in the letter from the Architect outlining the estimated construction costs, a difference of \$300,000. Please clarify.

Response: The \$1,800,000 is correct. The \$1,500,000 is a typographical error.

A revised letter from the architect is present in Attachment 9.

10. Section C, Economic Feasibility, Item 2 - Please submit a revised letter from the Bank of Texas which indicates the proposed loan amount.

Response: See Attachment 10

11. Section C, Economic Feasibility, Item 3 - Your response pertaining to the construction cost per square foot is noted. HSDA construction costs are noted in the table provided below from the "Applicant's Toolbox" on the HSDA website. Please clarify the reason the applicant's construction cost per square foot of \$185.00 is above the 3rd quartile for new construction.

Nursing Home Construction Cost Per Square Foot

Years: 2011 – 2013

	Renovated Construction	New Construction	Total Construction
1st Quartile	\$25.00/sq ft	\$152.80/sq ft	\$94.55/sq ft
Median	\$55.00/sq ft	\$167.31/sq ft	\$152.80/sq ft

Source: CON approved applications for years 2011 through 2013

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Response: As shown in this table, the estimated construction cost of \$185 per square foot is reasonable compared to other facilities recently build in Tennessee by Life Care Centers of America. The proposed facility will be state-of-the-art with all private rooms and is similar to the Ooltewah facility. Having all private rooms increases the number of bathrooms in patient rooms which increases construction costs. The HSDA new construction cost data base contains some projects from 2011. Some of this data is approximately three years old and construction cost has increased during this time. In summary, we feel the estimated construction cost of \$185 is reasonable when compared with similar projects.

Facility	Year Open	Sq Ft	Cost	Cost/sq ft
Life Care Center of Hixson	January-11	75,656	\$12,479,475	\$165
Life Care Center of Hickory Woods	October-11	79,338	\$13,893,821	\$175
Life Care Center of Old Hickory Village	May-12	78,864	\$14,335,503	\$182
Life Care Center of Rhea County	March-13	66,240	\$11,079,408	\$167
Life Care Center of Ooltewah	February-13	75,562	\$14,264,609	\$189
Life Care Center of Blount County	Under construction	79,000	\$13,904,000	\$176

Note: Life Care Center of Blount County is under construction and the updated estimated cost is \$176 per square foot.

12. Section C, Economic Feasibility, Item 4 (Historical Data Chart) - There appears to be errors in the Total Operating Expenses columns for the years 2011-2013. Also, the applicant incorrectly refers to page 31 in line D.9. Please make the necessary corrections and submit a revised Historical Data Chart.

Response: See Attachment 12

13. Section C, Economic Feasibility, Item 4 (Projected Data Chart) - The Projected Data Chart is noted. The HSDA is utilizing more detailed Historical and Projected Data Charts. Please complete the revised Projected Data Chart provided at the end of this request for supplemental information. Please note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should also include any management fees paid by agreement to third party entities not having common ownership with the applicant. Management fees should not include expense allocations for support services, e.g., finance, human resources, information technology, legal, managed care, planning marketing, quality assurance, etc. that have been consolidated/centralized for the subsidiaries of a parent company.

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- 14. Section C, Economic Feasibility, Item 5 - The average gross charge, average deduction from operating revenue and the average net charge per patient day are noted. However, there appears to be calculation errors in year 2. Please revise.**

Response: The revised average gross charge, average deduction, and the average net charge per patient day is presented as follows:

	Year 1	Year 2
Average Gross Charge	\$500.64	\$532.79
Average Deduction	\$59.03	\$103.26
Average Net Charge	\$441.61	\$429.53

- 15. Section C, Economic Feasibility, Item 8 - The loss of \$2.4 million dollars in Year One of the proposed project is noted. In Year 3 of the proposed project, the applicant will begin the year with a combined net loss of \$2,280,975 from Year 1 and Year 2 of the project. When does the applicant expect to break even with this project? Also, please demonstrate the availability of cash for continued operations while operating with net losses.**

Response: The new facility is projected to have a positive cash flow in the 17th month of operation, including management fees. A letter from DeCosimo, PLLC, the firm's CPA stating funds are available for the startup of this facility is presented in Attachment 17.

- 16. Section C. (Economic Feasibility) Item 9. - Please complete the following chart for the first year of operation**

Payor	Gross Revenue	% of Total Revenues
Medicare	\$4,814,872	70%
Medicaid/TennCare	\$ 0	0%
Commercial insurance	\$1,468,014	21%
Self-Pay	\$ 574,364	8%
Other Misc. (Beauty/Barber, etc.)	\$ 5,000	1%
Total	\$6,862,250	100%

- 17. Section C, Economic Feasibility, Item 10 - Please provide the most recent audited financial statements for Life Care Centers of America, Inc. with accompanying notes, if available.**

Response: As previously discussed in the application, Life Care is a privately held company, and is not required by law to make its financial statements public. The

information in our financial statement is confidential and sensitive in a number of areas. A letter from DeCosimo and Company, PLLC, indicating the applicant has the funds available for annual debt service required for this project, is present in Attachment 17.

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Please complete the following table for Life Care Centers of America, Inc.'s capital projects for the past five years.

HISTORICAL 5-YEAR CAPITAL PROJECTS CHART FOR LIFE CARE

Facility	State	Total Project Costs	Date of Completion
Cape Girardeau SNF	MO	\$20,301,930.12	12/19/2013
Hickory Woods SNF	TN	\$23,575,573.98	12/13/2011
Hixson SNF	TN	\$18,827,656.05	12/16/2010
Old Hickory SNF	TN	\$23,526,304.47	4/4/2012
Ooltewah SNF	TN	\$24,955,534.92	12/5/2012
Rhea County SNF	TN	\$21,900,675.96	1/23/2013
Stonegate SNF	CO	\$24,573,283.05	5/8/2012

18. Section C, Economic Feasibility, Item 11.a and 11.b. - The alternatives to this project are noted. However, it appears the 2012 Occupancy Rates of the 4 Life Care Nursing Homes in Hamilton County ranged from 71.5% to 84.5%. In addition, the applicant plans to transition the existing patients of Life Care of East Ridge to Life Care Center of Collegedale (licensed occupancy 71.5% in 2012), and will not be providing care to any Hamilton County nursing home patients for almost 3 years. With this in mind has the applicant considered as an alternative not rebuilding and closing Life Care of East Ridge?

Response: During 2012, the four Life Care Centers of America facilities had an average occupancy rate of 78 percent. The applicant proposes to close 22 beds. If these beds were closed in 2012, the average occupancy rate of these four facilities would have been 82%. In 2012, 51 percent of the patients in these four facilities were Level II (SNF) patients. These patients have a short length of stay (approximately 30 days). Because of this short length of stay, these facilities cannot operate at a high occupancy rate as nursing homes treat primarily Level I patients.

During 2012, the 11 nursing homes in Hamilton County reported an average occupancy rate of 85 percent. If East Ridge had not been open, this occupancy rate

would have been 92 percent. There is an outstanding CON for 25 beds. If these beds were open the utilization would have been 91 percent.

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The over 60 years of age population in Hamilton County is rapidly increasing. Between 2012 and 2017, this population is expected to increase from 74,915 to 84,904 (being a 13.3 percent increase). The bed need methodology shows a need for 895 additional nursing home beds in Hamilton County in 2016.

Life Care Center of East Ridge is needed and the need will grow in the future. Closing the facility would be contrary to the best interests of the community.

19. Section C. Orderly Development, Item 2 -The applicant states Level 1 patients will be encouraged to transfer to Life Care Center of Collegedale. What is the current capacity and occupancy at the Life Care Center of Collegedale?

Response: Life Care Center of Collegedale contains 124 licensed beds. The census today shows 95 patients. Year-to-date in 2014, Life Care Center of East Ridge had an average census of 18.5 Level I (NF) patients. Beds will be available for the patients to be transferred from Life Care Center of East Ridge to the Collegedale facility.

20. Section C. Contribution to the Orderly of Health Care, Item 3 -Please clarify if the 18 physical therapists and 12 occupational therapists include aides and assistants. If so, please break-out the totals.

Response: The 18 physical therapists include 8 registered physical therapists and 10 physician therapy aides. The 12 occupational therapists include 5 registered occupational therapists and 7 occupational therapists.

Please clarify why Social Workers and Recreational Therapists were not included in the anticipated staffing pattern.

Response: The staffing includes 2 social workers and 1 recreational therapists. They included in the total staffing, but omitted from the clinical staffing.

Please clarify why the applicant needs more staff for a smaller facility.

Response: The average daily census is expected to increase in the new facility. The average daily census year to date is 55.3 and is expected to increase to 71.1 in the second year of operation. The current staffing is 106 FTEs and is expected to increase

121
to 120 FTEs, during the second year of operation. Current staffing is 1.92 FTEs per patient day (106 FTEs/55.3) and is expected to decrease to 1.69 FTEs per patient day (120 FTEs/71.1) or a decrease of 12 percent.

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- 21. Section C. Contribution to the Orderly of Health Care, Item 7.b -Please clarify if there has been any Joint Commission surveys conducted since May 2012. If so, please provide a copy.**

Response:

No. Joint Commission surveys are only performed every three years.

- 22. Project Completion Forecast Chart - It appears the applicant incorrectly anticipated the commencement of the building construction in January 2015. Please revise and resubmit a Project Completion Forecast Chart.**

Response: See Attachment 22

**October 24, 2014
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**ATTACHMENT 2
CMS BULLETIN**

October 24, 2014
2:56pm

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850



CMCS – MMCO – CM Informational Bulletin

Date: June 7, 2013

From: Cindy Mann, Director
Center for Medicaid & CHIP Services (CMCS)

Melanie Bella, Director
Medicare-Medicaid Coordination Office (MMCO)

Jonathan Blum, Director
Center for Medicare (CM)

Subject: Payment of Medicare Cost Sharing for Qualified Medicare Beneficiaries (QMBs)

This Informational Bulletin provides information for state Medicaid agencies and other interested parties regarding the treatment of claims for Medicare cost sharing for Qualified Medicare Beneficiaries (QMBs). The Bulletin also reminds states of the statutory requirement to process Medicare cost-sharing claims for QMBs from Medicare-certified providers, and to be able to document proper processing of such claims. This Informational Bulletin is provided as a companion to communications on this topic to Medicare providers in the form of a Medicare Learning Network Matters article, and a CMCS Informational Bulletin published in 2012, which are available at: <http://www.cms.gov/MLNMArticles/Downloads/SE1128.pdf>, and <http://www.medicaid.gov/Federal-Policy-Guidance/downloads/CIB-01-06-12.pdf>.

State Medicaid agencies have a legal obligation to reimburse providers for any Medicare cost sharing that is due for QMBs according to the state's CMS-approved Medicare cost-sharing payment methodology. State Medicaid Management Information Systems (MMIS) must process all Medicare "crossover" claims (claims that include primary payment from Medicare) for QMBs, including Medicare-adjusted claims that are submitted by Medicaid-enrolled providers, even if a service or provider category is not currently recognized in the Medicaid State Plan. States must furnish all Medicare-enrolled providers, including out-of-state providers, with a means by which they can enroll in the Medicaid program for purposes of having such claims processed.

Statutory Authority for Payment of QMB Cost-Sharing Amounts

Section 1902(a)(10)(E) of the Social Security Act (*hereinafter* "the Act") directs state Medicaid agencies to reimburse providers for QMB cost-sharing amounts [as defined in §1905(p)(3)], "without regard to whether the costs incurred were for items and services for which medical

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assistance is otherwise available under the plan.” (emphasis added). Section 1902(n)(2) of the Act does permit the state to limit payment for QMB cost sharing to the amount necessary to provide a total payment to the provider (including Medicare, Medicaid, required nominal Medicaid copayments, and third party payments) equal to the amount a state would have paid for the service under the State Plan. When the crossover claim is for Medicare-covered services that are not included in the Medicaid State Plan, the state is still liable to pay the crossover claim, but may establish reasonable payment limits, approved by CMS, for the service.

The actual crossover payment made to a provider by Medicaid (plus the QMB’s personal liability for any nominal copayments under Medicaid, if applicable) is considered payment-in-full for Medicare deductibles and coinsurance.

Impermissible Balance Billing of QMBs

Providers are strictly prohibited under §1902(n)(3) of the Act from seeking to collect any additional amount from a QMB for Medicare deductibles or coinsurance (other than nominal Medicaid copayments, as mentioned above), even if the Medicaid program’s payment is less than the total amount of the Medicare deductibles and coinsurance.

Possible Causes of Impermissible Balance Billing of QMBs

CMS believes that some instances of impermissible balance billing of beneficiaries occur when Medicare-certified providers are unable to obtain reimbursement or an 835 Health Care Payment and Remittance Advice (RA) for QMB cost-sharing claims from the state Medicaid program.

Repeated reports of QMB crossover claims not being processed in state MMIS systems prompt us to remind states of their claim processing obligations under federal law. We are aware of situations typically occurring when:

- the Medicare-certified provider submitting the claim is not enrolled with the state Medicaid agency; or
- the MMIS does not recognize the provider identifier; or
- the service is covered by Medicare, but not included in the Medicaid State Plan; or
- the provider type is recognized by Medicare, but not by the state Medicaid program; or
- the service is provided by an out-of-state provider.

For each of the situations listed above, CMS has received reports that Medicare-certified providers may not be receiving adjudication of their claim for Medicaid liability, or may not be receiving subsequent notification through the standard RA, as required under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). There may be isolated instances of a state MMIS rejecting a QMB crossover claim because the individual provider has been suspended from participation in the Medicaid program, but continues as a Medicare-certified provider. Even in this circumstance, the state is required to permit the provider to enroll for the

October 24, 2014
2:56pm

limited purpose of obtaining adjudication of the QMB cost-sharing amount.

State Medicaid Programs' Claims Processing Obligations

All states maintaining a federally-certified MMIS funded under §1903(a)(3) of the Act are required—as an express condition of receiving enhanced federal matching funds for the design, development, installation and administration of their MMIS systems—to process Medicare crossover claims, including QMB cost sharing, for adjudication of Medicaid cost-sharing amounts, including deductibles and coinsurance for Medicare services, and to furnish the provider with an RA that explains the state's liability or lack thereof.

Specifically, §1903(a)(3)(A)(i) of the Act requires MMIS systems to demonstrate full compatibility with the claims processing and information retrieval systems utilized in administration of the Medicare program. Instructions contained in CMS's State Medicaid Manual (SMM), Part 11, §11325 reinforce the requirement of the MMIS system to (1) record Medicare deductibles and coinsurance paid by the Medicaid program on crossover claims, (2) provide a prompt response to all inquiries regarding the status of the crossover claim, and (3) issue remittance statements to providers detailing claims and services covered by a given payment at the same time as payment, including remittance statements for zero payment amounts. The state must be able to document that it has properly processed all claims for cost-sharing liability from Medicare-certified providers to demonstrate compliance with §§1902(a)(10)(E) and 1902(n)(1) & (2) of the Act.

Services Not Covered by the Medicaid State Plan

As noted earlier in this Informational Bulletin, a Medicaid agency's obligation to adjudicate and reimburse providers for QMB cost sharing exists even if the service or item is not covered by Medicaid, irrespective of whether the provider type is recognized in the State Plan and whether or not the QMB is eligible for coverage of Medicaid state plan services. For Full Benefit Dual Eligibles who are not eligible as QMBs, a state may elect to limit coverage of Medicare cost sharing to only those services also covered in the Medicaid State Plan.

Provider Enrollment

The state may require Medicare-certified providers to execute a Medicaid provider agreement and enroll in the state's Medicaid program in order to submit claims for reimbursement of QMB cost sharing, but the state should have a mechanism to ensure that providers who enroll only for that purpose are not included in lists of providers available to other beneficiaries. Alternately, a state may utilize a simplified, limited-purpose enrollment process for Medicare providers seeking to enroll in Medicaid for the sole purpose of claiming Medicare cost-sharing reimbursement while in compliance with the provider screening and enrollment requirements included in the CMCS Informational Bulletin issued December 23, 2011 (<http://www.medicaid.gov/Federal-Policy-Guidance/downloads/CIB-12-23-11.pdf>). As noted above, however, regardless of the specific enrollment mechanism chosen, states must enable all Medicare-enrolled providers, including those who are out-of-state, some mechanism by which they can get the state to process their Medicare crossover claims, including claims for QMB cost sharing.

October 24, 2014
2:56pm

Summary

Therefore, in circumstances where a provider has submitted a claim to Medicaid for processing in accordance with the timely filing provisions of 42 CFR §424.44; and the provider has executed the necessary provider agreement according to a state's procedures for provider enrollment, the state *must* process the claim in accordance with the timely claims processing provisions of 42 CFR §447.45 and must issue the provider an RA for those claims as required by the SMM.

CMS Technical Assistance Is Available

CMS will provide technical assistance to states in:

- understanding state Medicaid agency liability for Medicare cost sharing;
- modifying or enhancing the MMIS to permit proper processing of QMB crossover claims; and
- enrolling providers for the limited purpose of processing Medicare cost-sharing crossover information, or developing alternative methods to identify these Medicare providers in the MMIS.

States should contact the CMS Regional Office to request technical assistance.

For further information concerning state Medicaid agency liability for Medicare cost sharing, please contact Nancy Dieter, Technical Director for Coordination of Benefits and Third Party Liability, Division of Integrated Health Systems, at 410-786-7219 or Nancy.Dieter@cms.hhs.gov. For further information concerning MMIS requirements, please contact your CMS Regional Office or George Patterson, Health Insurance Specialist, Division of State Systems, at 410-786-4609 or George.Patterson@cms.hhs.gov.

DECOSIMO
CERTIFIED PUBLIC ACCOUNTANTS

an independent firm associated with
MOORE STEPHENS
INTERNATIONAL LIMITED

Joseph Decosimo and Company, PLLC
Tallon Building
Suite 800 - Two Union Square
Chattanooga, TN 37402
www.decosimo.com

Renee B. Ford, CPA
Principal
T: 423.756.7100
F: 423.756.0510
E: reneeford@decosimo.com

October 24, 2014
2:56pm

October 6, 2014

Mr. Mark Farber
Health Services and Development Agency
State of Tennessee
Nashville, Tennessee

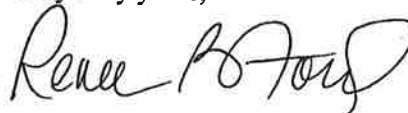
Dear Mr. Farber:

Joseph Decosimo and Company, PLLC is the independent accounting firm engaged by Life Care Centers of America, Inc. and its consolidated entities ("the Companies") to conduct an audit of the Companies' consolidated balance sheet and related statements of income, deficit and cash flows. We have conducted such an audit for several years, most recently as of December 31, 2013, the last year for which an audit of the Companies has been completed. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, as is more fully set forth in our audit report.

From our audits of the Companies, we are aware that from time to time Life Care Centers of America, Inc. has purchased land, constructed and leased nursing facilities. Life Care Centers of America, Inc. informs us that it has applied to the State of Tennessee for a certificate of need in connection with the relocation of a skilled nursing facility in Hamilton County, with a total estimated cost of approximately \$24.875 million. We understand that the relocation costs are to be bank-financed over five years, requiring total principal and interest payments of approximately \$995,000 per year and a balloon payment of approximately \$23.9 million which will be refinanced. Management has also informed us that Life Care Centers of America, Inc. anticipates having several new skilled facilities under construction and in the fill-up stages during 2014 and 2015, requiring approximately \$7.5 - \$8.5 million of operating capital of the Companies.

We have been asked to provide you with the following information from the Companies' audited financial statements. The net cash flows from operating activities in each of the three years ended December 31, 2011, 2012, and 2013, as stated in the Companies' consolidated statements of cash flows, were substantially in excess of the estimated operating capital needed for the planned new skilled facilities under construction and the annual debt service requirements of the East Ridge, Hamilton County facility, as indicated above.

Very truly yours,



Renee B. Ford, CPA
For the firm

RBF/sb

October 24, 2014
2:56pmAFFIDAVIT

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: LIFE CARE CENTER OF EAST RIDGE

I, Cindy S. Cross. after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Life Care Centers of America, Inc.

By: Cindy S. Cross

Cindy S. Cross, Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 23rd day of October, 2014, witness my hand at office in the County of Bradley, State of Tennessee.

Becky Richmond
NOTARY PUBLIC

My commission expires February 7, 2017.

HF-0043

Revised 7/02



SUPPLEMENTAL-#2

-Copy-

Life Care Center of East Ridge

CN1410-044

October 30, 2014

VIA HAND DELIVERY

Phillip Earhart
Health Services Development Examiner
Health Services & Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: Certificate of Need Application CN1410-044
Life Care Center of East Ridge

Dear Mr. Earhart:

Attached, in triplicate, is the response to request for supplemental information in connection with the project referenced above.

Very truly yours,

BUTLER SNOW LLP


Dan H. Elrod

clw
Attachments
cc: Cindy Cross

**LIFE CARE CENTERS OF AMERICA
dba LIFE CARE CENTER
OF EAST RIDGE**

SUPPLEMENTAL INFORMATION 2

**CERTIFICATE OF NEED
APPLICATION CN1410-044
OCTOBER 30, 2014**

SUPPLEMENTAL

1. **Section B, Project Description, Item I - The applicant states there are approximately 18 Level I (SNF) patients in the current facility. Please clarify if the applicant meant to state 18 Level I (NF) patients.**

Response: The applicant did mean to state 18 Level I (NF) patients are in the facility.

2. **Section C. Need 1.a. (Service Specific Criteria-Construction, Renovation, Expansion, and Replacement of Health Care Institutions) (2) (a.) - The comparison of the cost of the renovation project to the cost of the replacement projects in cost per bed terms is noted. However, it appears the cost per bed is \$137,380. Please clarify.**

Response: The correct cost for new construction is \$137,380. The corrected comparison of new construction and renovation is presented in the following table.

	Beds	Construction Cost	Cost per Bed
New Construction	108	\$14,837,000	\$137,380
Renovation	119	\$16,292,080	\$138,068

3. **Section C, Economic Feasibility, Item 1 (Project Cost Chart) - In the supplemental response the applicant states the site will require significant fill to be imported to raise the finish floor level 4-6 feet above the 100 year flood level. Please address the following in relation to the 100 year flood level:**

- **Please clarify if the current building site will meet current Hamilton County/FEMA floodplain requirements.**

Response: The site will meet Hamilton County/FEMA floodplain requirements. Portions of the site are currently approximately four feet below the 100 year flood level. These areas of the site will be filled to raise them above the 100 year floodplain.

- **Please clarify why the new site is now needed to be elevated 4-6 feet while it appears the former site was not.**

Response: Code requires the finish floor of our proposed facility to be above the 100 year flood plain level. Based on a survey from 2010, portions of the proposed location for the new facility are on a section of the property that is approximately four feet below the 100 year flood level. Due to this, we have included costs to raise this area in our budget.

- **Please define a 100 year floodplain level.**

Response: The 100 year flood plain level is determined by FEMA. The flood plain is an area determined to be covered with standing water as a result of a flooding event predicted by FEMA to occur no more than once every one hundred years. It is at an elevation above sea level, and varies from area to area. FEMA maintains records and maps of flood plains and floodways. As indicated on the FEMA maps for this site, the 100 year flood level is 682 feet above sea level. A survey of the site showing the contours of the land is required to determine which areas of a site are above or below this elevation.

- **Has the existing nursing home ever flooded?**

Response: No. The existing nursing home has never flooded.

- **Please clarify if all of the 14.6 acres are included in the 100 year floodplain level. If not, what is the designation of the remainder?**

Response: Until the final site plans and civil engineering drawings are complete, the total acreage of land below the 100 year flood level that will require fill cannot be determined. Regardless of what is required, it is our company's preference to raise the building, driveways, and parking areas several additional feet above the minimum elevation set by FEMA.

- **If a 100 year flood occurs, will access roads be built for the safe evacuation of patients?**

Response: Due to our company's plans to raise the building, driveways, and parking areas several additional feet above the minimum required elevation set by FEMA, and the fact that the adjacent public roadways and interstate are also above this minimum elevation, a safe evacuation route will be provided.

4. **Section C, Economic Feasibility, Item 4 (Historical Data Chart) - There appears to be an error in the Total Operating Expenses column for the year 2013. The total should be \$11,373,294 not \$11,379,294. Please revise.**

Response: See Attachment 4

5. **Section C, Economic Feasibility, Item 5 - The average gross charge, average deduction from operating revenue and the average net charge per patient day are noted. However, there appears to be calculation errors in year 2 for the average deduction. Please revise.**

Response: The revised Projected Data Chart in the supplemental information contained several errors. Another revised Projected Data Chart is presented in Attachment 5. The average deduction from operating revenue and the average net charge per patient was determined using this revised chart and is presented in the following table. The data is the same as presented in the previous submittal of supplemental information.

	Year 1	Year 2
Average Gross Charge	\$500.64	\$532.79
Average Deduction	\$59.03	\$103.26
Average Net Charge	\$441.61	\$429.53

6. **Section C, Economic Feasibility, Item 10 - Life Care's refusal to submit financial statements is noted. Audited financial statements with accompanying notes are used to demonstrate the financial feasibility of a project. They are especially important when an applicant has multiple projects under construction. More information is needed to determine whether this project is financially feasible.**

Bank of Texas Senior Vice President Bianca Andujo's funding letter indicates the \$24,874,400 project will be funded by a 100% bank loan over a 5 year period with interest only payments during construction and lease up. The letter noted a current interest rate of 4%.

Decosimo CPA Renee B. Ford's October 6, 2014 letter notes the project will be bank-financed over five years, requiring total principal and interest payments of approximately \$995,000 per year and a balloon payment of approximately \$23.9 million which will be refinanced. Ms. Ford's letter also notes the net cash flows from the 2011-2013 audited financial statements were substantially in excess of the debt service of the operating capital needed for East Ridge and the approximately \$7.5-8.5 million for the several new skilled facilities under construction and in fill-up stages during 2014-2015.

- 1) Please provide more detailed information regarding the number and location of projects currently under construction and the total debt service associated with those projects.

Response: Currently, five new facilities are in the fill-up stages and one facility is under construction. The debt service per month for the project under construction is presented in the following table.

Project	Debt Service Per month
Life Care Center of Blount Count, Maryville, TN	\$62,500

- 2) Please address the details regarding the proposed refinancing of the 23.9 million balloon payment. Will interest only payments be required during construction and lease up or will the \$995,000 annual payment include principal and interest?

Response: Life Care Centers of America will lease the building from East Ridge Medical Investors, LLC and this entity will finance the project by a bank loan. During the term of the loan (5 years) the landlord will make annual payments of approximately \$995,000 per year. This amount is interest only and does not include principal.

- 3) Will the \$995,000 be paid each year for 5 years plus the 23.9 million balloon payment or will it be paid for 4 years plus the balloon payment?

Response: The interest payments will be paid for 5 years with the balloon payment being made at the end of the term of the loan.

- 4) Since the balloon payment is to be refinanced, what is the true cost of the replacement facility?

Response: The facility will be leased by the applicant/licensee for an initial term of 10 years. Since the total of payments for the initial 10-year term of the lease is less than the construction costs, the project cost for CON purposes is \$24,874,400 as presented in the Project Cost Chart.

- 5) **How many of Life Care's previous projects have been financed in this manner?**

Response: All recent projects that were financed, were financed in a similar manner.

- 6) **Please submit documentation that Life Care has the financial resources to operate this project. As previously indicated, recent audited financial statements with accompanying notes are requested as a way to demonstrate financial feasibility.**

Response: Life Care Centers of America, Inc. ("LCCA") is privately owned and its financial statements are confidential. The Agency has not previously required LCCA and its affiliates to provide audited financial statements in other Certificate of Need applications. Most of these applications included a letter from DeCosimo and Company similar to the letter included in the submitted supplemental information. In other applications a letter was submitted from DeCosimo and Company presenting three financial ratios (current ratio, debt service coverage ratio, and long-term debt to capitalization ratio) which were used by the Agency to evaluate the financial feasibility of the project.

A letter from DeCosimo and Company containing these updated ratios is presented in Attachment 6. These ratios demonstrate LCCA's financial ability to complete and operate this proposed project. It currently operates approximately 230 nursing facilities in 28 states. In LCCA's 38 years of operation, it has never been unable to complete a project due to a lack of financial resources.

**ATTACHMENT 6
DECOSIMO LETTER**



Joseph Decosimo and Company, PLLC
Suite 1100 - Two Union Square
Chattanooga, TN 37402
www.decosimo.com

To Management
Life Care Centers of America, Inc. and Consolidated Entities
Cleveland, Tennessee

We have performed the procedures enumerated below, which were agreed to by Life Care Centers of America, Inc. and consolidated entities (the Company) solely to assist you in connection with the calculation of certain ratios, which are attached hereto, derived from the audited financial statements of Life Care Centers of America, Inc. and consolidated entities for 2013, which were audited by us. We understand these ratios have been requested by the Tennessee Health Services and Development Agency in connection with your application for a Certificate of Need for Life Care Center of East Ridge.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and the associated findings are as follows:

1. Obtain calculations of certain financial ratios as listed below prepared by management of Life Care Centers of America, Inc. as of December 31, 2013, and compare the amounts used in these calculations to the appropriate balances and amounts reported in the audited financial statements of Life Care Centers of America, Inc. and consolidated entities for 2013, which were audited by us.
 - Current ratio
 - Debt service coverage ratio
 - Long-term debt to capitalization ratio

These procedures were performed without exception.

2. Recalculate the ratios prepared by management and report any differences noted between management's calculations and our calculations.

As a result of our procedures, we noted no differences between our calculations and those prepared by the Company, which are included in the attached schedule.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the calculation of the ratios. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the board of directors and management of Life Care Centers of America, Inc. and consolidated entities, in connection with its application for a Certificate of Need for Life Care Center of East Ridge, and is not intended to be and should not be used by anyone other than these specified parties.

Joseph Decasino and Company, PLLC

Chattanooga, Tennessee
October 30, 2014

Financial Ratios Required for East Ridge CON Application
Life Care Centers of America, Inc. and Consolidated Entities
December 31, 2013

Current Ratio -	2.15	After removing current maturities of long-term debt expected to be refinanced from total current liabilities in the calculation
	2.06	Including current maturities of long-term debt expected to be refinanced in total current liabilities in the calculation
Debt Service Coverage Ratio -	1.53	
Long-Term Debt to Capitalization Ratio -		This calculation was not made, since Life Care centers of America, Inc. is a privately owned company whose capitalization is limited to \$3,000 of common stock and \$907,404 of additional paid in capital. Variable interest entities which are included in the consolidated balance sheet have minimal capitalization and have negative equity due to withdrawals by the partners. Most of the capital required by an entity during fill-up is provided through loans from the partners. Thus, the Long-Term Debt to Capitalization ratio would not be meaningful as it relates to Life Care Centers of America, Inc.

OCT 30 10 03 130

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: LIFE CARE CENTER OF EAST RIDGE

I, Cindy S. Cross, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Life Care Centers of America, Inc.

By: 

Cindy S. Cross, Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 30th day of October, 2014, witness my hand at office in the County of Bradley, State of Tennessee.


NOTARY PUBLIC

My commission expires February 7, 2017.

HF-0043

Revised 7/02



SUPPLEMENTAL-#3

-Copy-

Life Care Center of East Ridge

CN1410-044

**November 18, 2014****2:38 pm**

3001 Keith Street, NW / P.O. Box 3480 / Cleveland, Tennessee 37320-3480
(423) 472-9585 / WWW.LCCA.COM

November 17, 2014

VIA FEDERAL EXPRESS

Philip M. Earhart
HSD Examiner
Health Services and Development Agency
Andrew Jackson Building
9th Floor, 502 Deaderick Street
Nashville, TN 37243

Re: Certificate of Need Application CN1410-044
Life Care Center of East Ridge

Dear Mr. Earhart:

This letter is to provide the Health Services and Development Agency (the "Agency") with additional information in the two areas identified in your letter dated November 12, 2014:

1. Section C, Economic Feasibility, Item 10

As additional background and clarification, the Applicant should have pointed out at the outset that no audited financial statement exists for Life Care Centers of America, Inc., the applicant for this CON and current operator of the facility known as "Life Care Center of East Ridge." Rather, the only audited financial statement issued – which is prepared by Decosimo Certified Public Accountants – is a consolidated audited financial statement aggregating the finances of some 216 nursing facilities and 20 retirement and assisted living facilities in 28 states.

Because of the consolidated nature of the financial statement, an examination of the audited consolidated financial statement would not reveal any specific, separate or itemized information about the finances of either Life Care Centers of America, Inc. alone or Life Care Center of East Ridge alone. In other words, the audited financial statement includes the assets, liabilities, revenues and expenses of Life Care Center of East Ridge but simply lumps them in with the aggregated total of assets, liabilities, revenues and expenses of the remaining 215 nursing facilities and 20 retirement and assisted living facilities.

As noted in its earlier submissions, as a privately owned company the Applicant does have privacy concerns about making publicly available consolidated financial information that has never been publicly released. Such information has never been filed in any other certificate of need or similar regulatory filing in any of the 28 states the Applicant or its affiliates do business. To the extent that

lenders request and receive the information, they do so with the protections afforded by federal and state banking and privacy laws, e.g. 12 CFR Part 216; TCA 45-10-101 et seq. Lenders have a statutory obligations to keep such information confidential. Regrettably, the statutes governing the Agency or its rules provide no such protection.

The Applicant does believe it has and can demonstrate to the Agency that this project is economically feasible. It has operated the facility successfully for almost 40 years and has previously outlined in detail the anticipated construction costs as well as the anticipated revenue and expenses of the new facility. The Applicant has previously provided in response to the first request for supplemental information In addition to the historical 5 year chart itemizing the major capital projects of the Applicant and its affiliates – which total over \$157 Million. Following are the Tennessee projects alone for approximately the last 10 years, which total over \$270 Million:

<u>Facility</u>	<u>Total Project Costs</u>	<u>Certificate of Occupancy</u>
Cleveland ALF/ILF	\$38,976,627	05/05/2006
Cleveland Patio Homes	\$13,194,417	02/10/2010
Collegedale SNF Addition & Remodel	\$17,073,875	04/06/2011
Gray SNF	\$2,707,131	2006-2007
Greenbriar Cove	\$40,749,556	07/15/2009
Hickory Woods ALF	\$22,401,317	09/22/2014
Hickory Woods SNF	\$23,575,574	12/13/2011
Hixson SNF	\$18,827,656	12/16/2010
Old Hickory SNF	\$23,526,304	04/04/2012
Ooltewah ALF	\$23,888,300	06/11/2014
Ooltewah SNF	\$24,955,535	12/05/2012
Rhea County SNF	\$21,900,676	01/23/2013
Sparta SNF	\$7,993,969	08/10/2000
Total:	\$279,770,937.00	

The Applicant would respectfully point out that a CON was required for many of the above projects; the Agency approved all of those without requiring an audited financial statement of the respective applicants. None of the projects undertaken by the applicant or its affiliates have been abandoned because of lack of financing or capital. The financing of this project is in place based on the Applicant's financial strength.

While the statutes and rules governing the Agency of course require examination of the economics of proposed projects, neither the statutes nor the Agency's rules require any particular format for such a presentation or an audited financial statement. See T.C.A. 68-11-1607; TN Rules & Regulations 0720-11-.01.

November 18, 2014**2:38 pm**

Philip M. Earhart
November 17, 2014
Page 3

We understand that many applicants may find it beneficial to submit an audited financial statement, but the concerns expressed above, in the applicant's view, outweigh the benefit of an audited financial statement. The Applicant is prepared to incur the risks of presenting its application without the benefit of an audited financial statement.

As requested, please note the following information with regard to the pending litigation matter.

Forrest L. Preston is the sole shareholder of Life Care Centers of America, Inc. ("Life Care"). Life Care has been named in the following lawsuits which have now been consolidated in the United States District Court for the Eastern Division of Tennessee:

United States of America, ex rel. Glenda Martin v. Life Care Centers of America, Inc.

Case No.: 1:08-CV-251

Court: United States District Court Eastern District of Tennessee at Chattanooga

Date Filed: United States' Consolidated Complaint in Intervention filed November 28, 2012
(Original Complaint filed October 16, 2008)

United States of America, ex rel. Tammie Taylor v. Life Care Centers of America, Inc.

Case No.: 1:12-CV-64

Court: United States District Court Eastern District of Tennessee at Chattanooga

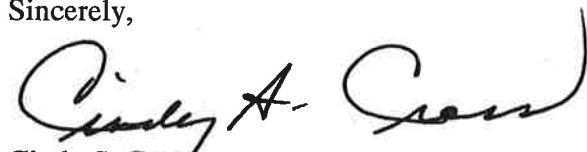
Date Filed: United States' Consolidated Complaint in Intervention filed November 28, 2012
(Original Complaint filed June 25, 2008)

Life Care believes that it has substantial defenses to the allegations and intends to vigorously defend itself in the civil litigation.

In addition, I would note that amount paid in state and federal penalties assessed against Life Care Center of East Ridge since January 1, 2011 is \$195,715. This penalty was assessed as a civil monetary penalty in connection with the facility's 10/18/2011 survey.

The Applicant respectfully requests that its Application be deemed complete and it would welcome the opportunity to demonstrate to Agency that this would be a successful, and economically feasible, project.

Sincerely,



Cindy S. Cross
Assistant Secretary

November 18, 2014**2:38 pm****AFFIDAVIT**

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: LIFE CARE CENTER OF EAST RIDGE

I, Cindy S. Cross. after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith in the attached letter, and that it is true, accurate, and complete.

Life Care Centers of America, Inc.

By: 

Cindy S. Cross, Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 17th day of November, 2014, witness my hand at office in the County of Bradley, State of Tennessee.


NOTARY PUBLIC

My commission expires February 7, 2017.

HF-0043

Revised 7/02



Supplemental #4 -COPY-

Life Care Center of East
Ridge

CN1410-044

December 12, 2014**10:13 am**

3001 Keith Street, NW / P.O. Box 3480 / Cleveland, Tennessee 37320-3480
(423) 472-9585 / WWW.LCCA.COM

December 11, 2014

VIA FEDERAL EXPRESS

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building
502 Deaderick Street – 9th Floor
Nashville, Tennessee 37243

ATTN: Phillip M. Earhart
HSD Examiner


RE: Certificate of Need Application CN1410-044
Life Care Center of East Ridge

Dear Mr. Earhart:

Please find enclosed, in triplicate, the Supplemental Information requested in connection with Certificate of Need Application CN1410-044 for the proposed Relocation for the above referenced project. Cindy Cross is currently out of the office, and, in light of the upcoming deadlines, this Supplemental Information is being submitted in her absence.

Thank you in advance for your assistance. If you should have any questions, please contact me at (423) 473-5868.

Sincerely,


Joan E. Thurmond
Legal Assistant

JET/jes
Enclosure

cc: Cindy S. Cross
Richard McAfee
Ed Day
Dan Elrod, Esquire

**LIFE CARE CENTERS OF AMERICA
dba LIFE CARE CENTER
OF EAST RIDGE**

SUPPLEMENTAL INFORMATION 4

**CERTIFICATE OF NEED
APPLICATION CN1410-044
DECEMBER 11, 2014**

December 12, 2014**10:13 am****1. Section A.6 (Site Control)**

It is noted Life Care Centers of America, Inc., is planning to lease the premises from lessors East Ridge Medical Investors, LLC. Please provide control of the site by providing a deed documenting the three LLCs East Ridge Medical Investors, LLC, East Ridge Retirement Investors, LLC and Fincher Real Estate Investors, LLC owns the property.

Response:

Attached please find copies of the deeds recorded in the Hamilton County Register's Office, Hamilton County, Tennessee, documenting the property ownership and site control:

2. Section C, Economic Feasibility, Item 10

In Supplemental #2 it is noted East Ridge Medical Investors, LLC will finance the proposed project by a bank loan. Please provide the latest balance sheet and income statement as well as the most recent audited financial statements with accompanying notes from East Ridge Medical Investors which documents the LLC has the financial resources to finance the proposed project.

Response:

No audited financial statement exists or has ever been prepared for East Ridge Medical Investors, LLC.

Attached are the current internal balance sheet and income statement for East Ridge Medical Investors, LLC.

In reviewing the attached, it should be kept in mind that Life Care Center of East Ridge is currently financed through a lender with a guarantee provided by U.S. Department of Housing and Urban Development ("HUD"). Accordingly, the ownership and lease structure of the facility have been organized in accordance with HUD guidelines. East Ridge Medical Investors, LLC. is currently the lessor of the property and not the operator of the facility.

Please clarify why the funding letter form the Bank of Texas is addressed to Life Care Centers of America, Inc. rather than East Ridge Medical Investors, LLC.

Response:

The letter was addressed to Life Care Centers of America, Inc. and Forrest L. Preston. Life Care Centers of America, Inc. is affiliated with East Ridge Medical Investors, LLC, through common ownership by Mr. Preston, who is the Chairman, Chief Executive Officer and sole shareholder of Life Care Centers of America, Inc. As is indicated by the stated purpose and content of the letter, the Bank of Texas has sent the letter proposing 100% financing of the replacement of the facility known as Life Care Center of East Ridge.

Please clarify which entity will be responsible for the \$23.9 million balloon payment.

Response:

As for which entity would be responsible for paying the \$23.9 million obligation and balloon payment to Bank of Texas, assuming the final loan documents are structured

December 12, 2014

as with past Bank of Texas loans, East Ridge Medical Investors, LLC would be responsible for the obligations.

The 2 pending Life Care Centers of America, Inc. lawsuits in the United States District Court for the Eastern Division of Tennessee is noted. However, as requested in supplemental #3, please provide an overview of the allegations, status, and its possible impact upon the financial outlook of Life Care Centers of America, Inc.

Response:

The two consolidated pending lawsuits date back from an investigation that started in March 2008 into rehabilitation services provided by certain therapists at certain facilities owned, operated or managed by Life Care Centers of America, Inc. It was later revealed that the investigation arises out of Federal False Claims Act actions filed under the statute's qui tam provisions. In general, the lawsuits claim that certain LCCA therapists provided rehabilitation therapy to Medicare beneficiaries at a level that was not medically reasonable or necessary, or did not constitute skilled therapy under applicable Medicare guidelines, allegedly causing certain patients to be improperly classified at higher levels for reimbursement purposes. While an adverse verdict could be material, LCCA believes that it has substantial defenses to the allegations and has been and intends to vigorously defend itself. Discovery is ongoing in the cases, and no trial date for the consolidated lawsuits has been set. As the effect of any outcome cannot be reasonably estimated, no provisions have been made in the financial statements for Life Care or any of its affiliates. East Ridge Medical Investors, LLC is not a defendant in the lawsuit.

ATTACHMENT 2

Section C, Economic Feasibility, Item 10

**Current Balance Sheet and Income Statement
For East Ridge Retirement Medical Investors, LLC**

December 12, 2014

10:13 am

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EAST RIDGE-SPE
EAST RIDGE
Statement of Income - YTD
October 31, 2014

DESCRIPTION	YTD	PER DAY	BUDGETED YTD	PER DAY	PRIOR YEAR YTD	PER DAY	BUDGET VARIANCE	PRIOR YEAR VARIANCE
REVENUES								
OTHER OPERATING REVENUE	601,125				588,746		601,125	12,379
GROSS REVENUE	601,125				588,746		601,125	12,379
NET REVENUE	601,125				588,746		601,125	12,379
OPERATING EXPENSES								
R & M	8,312						8,312	8,312
PROP/LIAB INSURANCE	42,963				29,308		42,963	13,655
TAXES	89,188				90,825		89,188	1,637
OTHER EXPENSES	12,809				4,874		12,809	7,935
TOTAL OPERATING EXPENSES	153,272				125,007		153,272	28,265
OPERATING MARGIN	447,853				463,739		447,853	15,886
OPERATING MARGIN %	74.50 %				78.77 %			4-
NON OPERATING EXPENSES								
DEPRECIATION & AMORT	231,281				244,976		231,281	13,695
INTEREST EXP	190,331				260,016		190,331	69,685
OTHER EXPENSES					105,297			105,297
TOTAL NON OPERATING EXP	421,612				610,289		421,612	188,677
PRE TAX PROFIT	26,241				146,550		26,241	172,791

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12/10/14
15:13

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0006

EAST RIDGE-SPE
EAST RIDGE
Comparative Balance Sheet
October 31, 2014

PAGE 1
12/10/14
15:13

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE-
CASH				
ACCOUNTS & NOTES RECEIVABLE				
PATIENT RECEIVABLES				
ALLOWANCE FOR BAD DEBTS				
OTHER ACCOUNTS RECEIVABLE				
NOTES RECEIVABLE				
SUPPLIES & OTHER CURRENT	4,719.95-	3,439.90		2,439.90
PREPAID PROP INSUR	2,659.20-	18,614.40	12,467.50	6,146.90
PREPAID OTHER INSUR				
TOTAL SUPPLIES/OTHER CURRENT	4,379.15-	22,054.30	12,467.50	9,586.80
TOTAL CURRENT ASSETS	4,379.15-	22,054.30	12,467.50	9,586.80
LAND & IMPROVEMENTS				
LAND		810,000.00	810,000.00	
LAND IMPROVEMENTS		398,022.62	398,022.62	
TOTAL LAND & IMPROVEMENTS		1,208,022.62	1,208,022.62	
BUILDING & IMPROVEMENTS				
BUILDINGS	35,017.55	3,856,161.80	3,856,161.80	
BUILDING IMPROVEMENTS		686,410.24	651,392.69	35,017.55
TOTAL BLDGS & IMPROVEMENTS	35,017.55	4,542,572.04	4,507,554.49	35,017.55
EQUIPMENT, FURN & FIXTURES	14,650.83	1,731,369.49	1,686,114.32	45,255.17
EQUIPMENT & FURNITURE				
TOTAL EQUIP, FURN & FIXTURES	14,650.83	1,731,369.49	1,686,114.32	45,255.17
LEASED PROP UNDER CAP LEASE				
ACCUMULATED DEPRECIATION				
ACCUM DEPR LAND IMPROVE	1,187.84-	323,415.66-	311,537.21-	11,878.45-
ACCUM DEPR BUILDINGS	10,783.59-	3,304,543.31-	3,196,707.06-	107,836.25-
ACCUM DEPR BLDG IMPROVE	3,051.49-	389,999.56-	359,236.26-	30,763.30-
ACCUM DEPR EQUIP/FURNIT	6,367.59-	1,329,703.11-	1,260,261.56-	69,441.55-
TOTAL ACCUMULATED DEPR	21,390.51-	5,347,661.64-	5,127,742.09-	219,919.55-
NET PROPERTY & EQUIPMENT	28,277.87	2,134,302.51	2,273,949.34	139,646.83-
OTHER LONG-TERM ASSETS				
MISC RESTR FND-TXN ESCROW	8,153.79	101,370.86	19,706.36	81,664.50
MISC RESTR FND-REPLACEMENT RSV	20,484.93-	93,556.36	101,578.02	8,022.46-
MISC RESTR FND-INSURANCE ESCRO	1,719.95	20,198.37	24,110.81	2,392.44-
MISC RESTR FND-MISC ESCROW	2,659.20	12,582.37	18,528.90	5,946.53-

December 12, 2014

10:13 am

REC-111

PAGE 2
12/10/14
15:13EAST RIDGE-SPE
EAST RIDGE
Comparative Balance Sheet
October 31, 2014

0007

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE-
MISC RESTRICTED FUNDS	2.10	20,975.03	20,943.62	31.41
TOTAL OTHER ASSETS	7,948.89	248,682.99	184,866.51	63,814.48
LONG-TERM A/R				
INTANGIBLE ASSETS				
DEFERRED FINANCING COSTS		88,252.34	88,252.34	
TOTAL INTANGIBLE ASSETS		88,252.34	88,252.34	
ACCUMULATED AMORT OTH ASSETS	498.18	8,556.93	3,575.10	4,981.83
ACCUM AMORT DEF FIN COSTS	498.18	8,556.93	3,575.10	4,981.83
TOTAL ACCUMULATED AMORTIZTN				
NET OTHER ASSETS	8,447.07	328,378.40	269,545.75	58,832.65
INTERCOMPANY				
LCCA DUE TO/FROM - OWNED	6,030.38	654,012.51	711,708.71	57,696.20
TOTAL INTERCOMPANY	6,030.38	654,012.51	711,708.71	57,696.20
TOTAL ASSETS	21,482.03	3,138,747.72	3,267,671.30	128,923.58

December 12, 2014

10:13 am

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EAST RIDGE-SPE
EAST RIDGE
Comparative Balance Sheet
October 31, 2014

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12/10/14
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0007

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE
ACCOUNTS PAYABLE	300.00-			
TRADE ACCOUNTS PAYABLE	24,832.77	59,290.55	28,211.63	31,078.92
A/P-RELATED PARTY				
TOTAL ACCOUNTS PAYABLE	24,532.77	59,290.55	28,211.63	31,078.92
ACCURED SALARIES				
ACCURED OTHER EXPENSES				
REAL ESTATE TAX PAYABLE	7,922.35	79,223.54		79,223.54
PERSONAL PROP TAX PAYABLE	639.12	6,391.21		6,391.21
TOTAL ACCURED OTHER EXPENSES	8,561.47	85,614.75		85,614.75
INCOME TAXES				
FRANCHISE/EXCISE TAX PAY			1,555.00	1,555.00-
TOTAL ACCURED EXPENSES	8,561.47	85,614.75	1,555.00	84,059.75
NOTES PAYABLE				
CENT MATURITIES OF L/T DEBT				
MORTGAGE PAY			183,359.12	
TOTAL CURRENT MATURITIES		183,359.12	183,359.12	
TOTAL CURRENT LIABILITIES	33,094.24	328,264.42	213,125.75	115,138.67
LONG TERM DEBT				
MORTGAGE PAY	15,452.36-	5,626,579.13	5,778,883.67	152,304.54-
TOTAL LONG-TERM DEBT	15,452.36-	5,626,579.13	5,778,883.67	152,304.54-
DEFERRED INCOME TAXES & OTHR				
PRMR'S CAP/STCKHLDRS EQUITY				
INVESTMENT IN SPE/MEMBER		499,915.08-	381,915.08-	118,000.00-
EARNED CAPITAL/RET'D EARNINGS		2,335,096.49-	2,335,096.49-	
DIVIDENDS		7,326.55-	7,326.55-	
Y-T-D NET INCOME (LOSS)	3,840.15	26,242.29		26,242.29
TOTAL PRMR/CAP/RET EARNINGS	3,840.15	2,816,095.83-	2,724,338.12-	91,757.71-
TOTAL LIABILITIES & EQUITY	21,482.03	3,138,747.72	3,267,671.30	128,923.58-

December 12, 2014

10:13 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: LIFE CARE CENTER OF EAST RIDGE

I, Joan E. Thurmond, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith in the attached letter, and that it is true, accurate, and complete.

Life Care Centers of America, Inc.

By: Joan E. Thurmond

Joan E. Thurmond, Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 11th day of December, 2014, witness my hand at office in the County of Bradley, State of Tennessee.

Jaime E. Sipe
NOTARY PUBLICMy commission expires 6/6/17.

Supplemental #5 -COPY-

Life Care Center of East
Ridge

CN1410-044

December 17, 2014**10:25 am**

3001 Keith Street, NW / P.O. Box 3480 / Cleveland, Tennessee 37320-3480
(423) 472-9585 / WWW.LCCA.COM

December 16, 2014

VIA FEDERAL EXPRESS

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building
502 Deaderick Street – 9th Floor
Nashville, Tennessee 37243

ATTN: Phillip M. Earhart
HSD Examiner

RE: Certificate of Need Application CN1410-044
Life Care Center of East Ridge

Dear Mr. Earhart:

Please find enclosed, in triplicate, the Supplemental Information requested in connection with Certificate of Need Application CN1410-044 for the proposed Relocation for the above referenced project.

I would note that while I did receive your request electronically; however, I still have not received the original via mail service. With that in mind, I submit the following for your review:

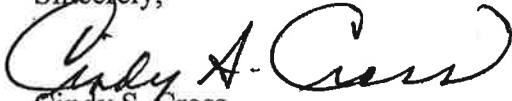
1. Attached letter from Bank of Texas issued to East Ridge Medical Investors, LLC acknowledging that they will issue a loan in favor of this entity.
2. As part of the financing with Bank of Texas, we will pay off our current mortgage with HUD. The amount of the current mortgage on the building is \$5,825,391. Therefore, HUD will not be involved in the future financing of the building. The party that is responsible for the repayment of this loan is East Ridge Medical Investors, LLC. East Ridge Medical will be able to meet this financing obligation, as well as that of Bank of Texas, through lease income of the future operator/tenant once the new facility is operational.

December 17, 2014**10:25 am**

Phillip M. Earhart
December 16, 2014
Page 2 of 2

Thank you in advance for your assistance. If you should have any questions, please contact me at (423) 473-5867.

Sincerely,



Cindy S. Cross
Assistant Secretary

CSC/jes
Enclosure

cc: Richard McAfee
Ed Day
Dan Elrod, Esquire

December 17, 2014

10:25 am



Bank of Texas, N.A.
Healthcare Banking
5956 Sherry Lane, Suite 1100
Dallas, Texas 75225

www.bankoftexas.com

Bianca Andujo
Bank of Texas
5956 Sherry lane #700
Dallas TX 75209

December 16, 2014

East Ridge Medical Investors, LLC
Forrest L. Preston
3570 Keith Street, NW
Cleveland, Tennessee 37312

RE: Life Care Center of East Ridge

Dear Forrest:

We are excited to discuss the opportunity to finance the replacement of your facility in East Ridge, Tennessee. This sounds like an exciting project that will clearly serve the East Ridge area well by delivering the care and services that today's seniors need and desire. As you are aware, Bank of Texas has successfully worked with you and your companies over the past several years and has provided you with financing for multiple projects.

Subject to your adhering to our applicable underwriting criteria, we are interested to work with you on the replacement of Life Care Center of East Ridge. Based on our typical loan parameters, we anticipate that the project can support a loan sufficient to fund up to 100% of the costs which you anticipate to be \$24,874,400. The interest rate would be established at closing, but would be approximately 4% if we closed today. The loan term would be 5 years with interest only during construction and lease-up. I know you are aware of our construction financing process and our capabilities based on our previous successful experiences with one another.

Bank of Texas looks forward to reviewing your loan proposal once you have obtained the necessary Certificate of Need from the State.

Sincerely,

A handwritten signature in cursive script that reads "Bianca Andujo".

Bianca Andujo
Sr. Vice President

December 17, 2014

10:25 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: LIFE CARE CENTER OF EAST RIDGE

I, Cindy S. Cross, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith in the attached letter, and that it is true, accurate, and complete.

Life Care Centers of America, Inc.

By: *Cindy S. Cross*

Cindy S. Cross, Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 16th day of December, 2014, witness my hand at office in the County of Bradley, State of Tennessee.

Jaime E. Sipe
NOTARY PUBLIC

My commission expires 6/6/17

Brent Lambert
Mayor

Denny Manning
Councilmember

Jacky Cagle
Councilmember



Marc Gravitt
Vice Mayor

Larry Sewell
Councilmember

Andrew Hyatt
City Manager

City of East Ridge

*1517 Tombras Avenue
East Ridge, Tennessee 37412*

January 29, 2015

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, Suite 850
500 Deaderick Street
Nashville, Tennessee 37243

RE: Life Care Center of East Ridge

Dear Ms. Hill:

Life Care has provided me with information concerning its pending CON application to replace its 40 year old existing nursing facility in East Ridge with a state of the art, all private room nursing and rehabilitation facility.

As you may know, Life Care has been a part of the East Ridge community since it built the current facility 40 years ago. The facility's location borders Exit 1 on Interstate 75, which is of course a major gateway to Tennessee from Georgia and indeed the entire Southeastern United States. In addition to the nursing facility, I understand the Company anticipates constructing at this campus two other facilities – a multi-story assisted living facility and a multi-story retirement building. Life Care has worked with the City of East Ridge and TDOT on plans to construct -- at the Company's expense – significant traffic improvements at the entrance to the campus, which will also be beneficial to the community.

I am told that this facility currently draws support from a wide range of hospitals in the entire southeastern Tennessee area. I believe the new facility will only add to the Company's capabilities to serve the senior citizens in this part of our State and surrounding communities.

Recognizing that Life Care operates in 28 states and must choose how best to allocate its development resources nationwide, I am proud to support the Company's decision to construct this new facility in East Ridge, Tennessee, which will preserve Tennessee jobs, provide economic growth in our state, and assure continued care for the area's senior citizens.

I urge the Agency's approval of this project.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Andrew E. Hyatt", with a stylized flourish at the end.

Andrew E. Hyatt
City Manager

Brent Lambert
Mayor

Denny Manning
Councilmember

Jacky Cagle
Councilmember



Marc Gravitt
Vice Mayor

Larry Sewell
Councilmember

Andrew Hyatt
City Manager

City of East Ridge

*1517 Tombras Avenue
East Ridge, Tennessee 37412*

January 29, 2015

Ms. Melanie Hill
Executive Director
Tennessee Health Services and Development Agency
Andrew Jackson Building, Suite 850
500 Deaderick Street
Nashville, Tennessee 37243

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2007-05-15 10:02

I am told that this facility currently draws support from a wide range of hospitals in the entire southeastern Tennessee area. I believe the new facility will only add to the Company's capabilities to serve the senior citizens in this part of our State and surrounding communities.

Recognizing that Life Care operates in 28 states and must choose how best to allocate its development resources nationwide, I am proud to support the Company's decision to construct this new facility in East Ridge, Tennessee, which will preserve Tennessee jobs, provide economic growth in our state, and assure continued care for the area's senior citizens.

I urge the Agency's approval of this project.

Very truly yours,

A handwritten signature in blue ink, reading "Brent Lambert". The signature is fluid and cursive, with the first name "Brent" and last name "Lambert" clearly distinguishable.

Honorable Brent Lambert
Mayor



Marc Gravitt
State Representative
30th District
rep.marc.gravitt@capitol.tn.gov

HOUSE OF REPRESENTATIVES
STATE OF TENNESSEE

District Office:
1511 South Smith Street
East Ridge, TN 37412

February 16, 2015

Tennessee Health Services and Development Agency
Andrew Jackson Building, Suite 850
500 Deaderick Street
Nashville, Tennessee 37243
ATTN: Ms. Melanie Hill

Legislative Office:
War Memorial Building
Nashville, TN 37243
p. (615) 741-1934

RE: Life Care Center of East Ridge

Dear Ms. Hill,

Life Care has provided me with information concerning its pending CON application to replace its 40 year old existing nursing facility in East Ridge with a state of the art, all private room nursing and rehabilitation facility.

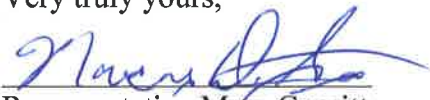
As you may know, Life Care has been a part of the East Ridge community since it built the current facility 40 years ago. The facility's location borders Exit 1 on Interstate 75, which is of course a major gateway to Tennessee from Georgia and indeed the entire Southeastern United States. In addition to the nursing facility, I understand the Company anticipates constructing at this campus two other facilities – a multi-story assisted living facility and a multi-story retirement building. Life Care has worked with the City of East Ridge and TDOT on plans to construct, at the Company's expense, significant traffic improvements at the entrance to the campus, which will also be beneficial to the community.

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Recognizing the Life Care operates in 28 states and must choose how best to allocate its development resources nationwide, I am proud to support the Company's decision to construct this new facility in East Ridge, Tennessee, which will preserve Tennessee jobs, provide economic growth in our state, and assure continued care for the area's senior citizens.

I urge the Agency's approval of this project.

Very truly yours,


Representative Marc Gravitt

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954**

DATE: February 27, 2015

APPLICANT: Life Care Centers of America
d/b/a Life Care Center of East Ridge
3570 Keith Street, NW
East Ridge, Tennessee 37312

CON #: CN1410-044

CONTACT PERSON: Cindy A. Cross, Senior Director of Legal Services
Life Care Center of East Ridge
3570 Keith Street, NW
Cleveland, Tennessee 37312

COST: \$24,874,400

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Life Care Centers of America, Inc., d/b/a Life Care Center of East Ridge, a licensed nursing home, owned and operated by Life Care Centers of America, Inc., a Tennessee corporation is filing this Certificate of Need (CON) application for the replacement of the current facility at 1500 Fincher Avenue in East Ridge (Hamilton County), Tennessee. This current 40 year old 130 bed facility will be replaced by a new 108 bed nursing home which will result in a reduction of 22 beds to its licensed bed capacity. The replacement facility will be located at the site of the original facility. No other services will be initiated or discontinued and no major medical equipment will be requested.

The proposed new replacement facility will be owned by East Ridge Medical Investors, LLC which will be owned by Life Care Centers of America, Inc. (99.5%) and East Ridge Medical, Inc. (0.5%). Both of these entities are in turn owned by Forrest L. Preston. The Master Tenant/Sub-Lessor will be Master Lease Master Tenant, LLC f/k/a Real Estate HUD Master Tenant, LLC, a Tennessee LLC, which is owned by Forrest L. Preston (99.5%) and Developers Investment Company II, Inc. (0.5%) which again, is owned by Forrest L. Preston. The license holder will continue to be Life Care Centers of America, Inc., which is in turn, wholly owned by Forrest L. Preston.

The estimated project cost is \$24,874,400 and will be financed by a loan from the Bank of Texas. A copy of the letter from the Bank of Texas expressing its willingness to fund this project can be found in Attachment C. Economic Feasibility.2 in the initial CON application.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

NEED:

The applicant, Life Care Centers of America, Inc., d/b/a Life Care Center of East Ridge has identified the need to replace the existing 130 bed facility, located at 3570 Keith Street NW in East

CN1401-044

Life Care Center of East Ridge
Construction, Renovation and Relocation of
Health Care Facilities

Ridge in East Ridge (Hamilton County), Tennessee, with a new 108 bed facility Medicare Skilled Nursing Facility (SNF). The proposed replacement facility will be placed near to the site of the existing nursing home facility which will be demolished, according to the applicant. The actual address is not known at this time but may well be the same address as the current facility. The current facility is licensed for 130 beds and that total will be reduced by 22 beds resulting in a 108 bed Medicare SNF.

The applicant considered maintaining the current nursing home facility but determined the cost of renovation would, in fact, be greater than the cost of building a right-sized new facility. Therefore, it would not be cost effective or feasible to continue operating the older nursing home. The applicant commented that the construction of a new facility could allow for future expansion of the nursing home and the expanded site could also provide space for a CCRC if deemed desirable by Life Care Centers of America, Inc.

TENNCARE/MEDICARE ACCESS:

The CON application on page 4 contains the following information regarding Medicare and Medicaid/TennCare participation. In their response to question 10 the applicant provided the current Medicare number (445296) and the current Medicaid/TennCare number (0445296) for Level II Qualified Medicare Beneficiaries (QMB). The applicant stated in response to question 13 on the aforementioned page that this project would not involve TennCare/Medicaid participants. Questions arose during the course of the review regarding the nature of the facility's relationship with TennCare/Medicaid. The facility provided a copy of a June 7, 2013 Informational Bulletin from the Centers for Medicare and Medicaid Services titled **Payment of Medicare Cost Sharing for Qualified Medicare Beneficiaries**. The bulletin states a State Medicaid Authority must reimburse providers for QMB cost-sharing amounts as defined in Subsection 1905 (p) (3), of the Act. This appeared to resolve the question. This would not require the applicant to provide other Medicaid Level II or Level I services. The facility would then not be subject to the Linton Law due to the fact it will not serve Medicaid/TennCare residents.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

The Department of Health, Division of Policy, Planning, and Assessment-Office of Health Statistics has reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine they are mathematically accurate and the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located in the CON application on page 27. The total cost is \$24,847,400.

Historical Data Chart: The Revised Historical Data Chart is located in Supplemental 2 of the application. The historical financial data for the project is drawn from audited financial statements representing aggregated data from all 215 nursing home facilities in 28 states. The applicant states it has never prepared an audited financial statement for the Life Care Center of East Ridge and will not release the consolidated audited financial statement for the Life Care Centers of America, Inc. as requested by the HSDA staff in its project review. Therefore any conclusions regarding the financial feasibility of the project based upon the review of this CON application and representations made by the applicant would not be conclusive. It is noted the applicant did provide some limited financial data on page 4 of Supplemental 2 consisting of three (3) financial ratios (current ratio, debt service coverage ratio and long-term debt to capitalization ratio). These can be found on page 3 of Supplemental 2.

The applicant did release additional financial data in Attachment C. Economic Feasibility.10-Financial Statements, as reported in the initial CON application. The review of this document by the Office of Health Statistics reveals the applicant reported in the account and notes receivables Prior YTD and Per Books YTD but did not report any adjustments and net

revenue or any other data related to these revenue sources. The Office of Health Statistics is not aware of any restrictions involving this data since both Medicaid and Medicare cost reports contain this information.

Note to Agency Members: The applicant states the release of the audited financial statements to the Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics or the Health Services and Development Agency will contain proprietary information which will not be released to either agency. The applicant does not identify what specific information in the financial statements would be proprietary in nature or provide redacted financial statements. The Office of Health Statistics contacted the Senior Director of Legal Services in order to identify what constitutes proprietary data. The responses of the Senior Director of Legal Services and other representatives of Life Care Centers of America, Inc., are as follows:

"As we discussed yesterday, please see attached the Cost Reports for Life Care Center of East Ridge. In addition, I would again note that Life Care is a privately-owned company and it considers all of its financial information confidential and proprietary, including its assets, liabilities, revenue and net income. In addition, the audited financial statements for Life Care Centers of America, Inc. includes information not only for Life Care Center of East Ridge, but for 215 *other* nursing facilities and approximately 20 *other* retirement/assisted living facilities that are merely *affiliated* with Life Care.

The application included information from the a prominent Tennessee certified public accounting firm as well as our lender to substantiate that the applicant, Life Care Centers of America, Inc., has the resources to complete the project. Total construction expenditures alone, expended by Life Care and its affiliates in the past 10 years, were almost \$280,000,000. Life Care and its affiliates have never failed to complete a project due to of lack of financial resources."

The review of the Historical Data Chart (Revised) presented on page 7 of Supplemental 2 as Attachment 4 reveals gross operating revenue of \$15,522,377 in 2011, \$14,367,071 in 2012 and \$13,728,589 in 2013.

The contractual adjustments total only \$25,476 in 2011, \$1,807,415 in 2012 and \$2,347,305 in 2013 respectively, if the calculations in the Historical Data Chart are correct. The review by the Office of Health Statistics revealed a possible discrepancy in the 2011 entry for Deductions for Operating Revenue. The \$25,476 contractual adjustment total appeared to be the result of subtracting \$(499,760) from the amount for the provision of bad debt which was \$525,236. The contact person for the applicant was informed of this matter and was asked to clarify the matter since this is a very low contractual adjustment unless the \$(499,760) is a positive amount rather than a negative amount. The financial contact person for Life Care Center confirmed that the amount reported in the Historical Data Chart for 2011, while low, is correct.

The applicant reports the net operating income in 2011 was \$1,283,834.11, in 2012 was \$(168,677) and in 2013 was \$7,988.

Projected Data Chart: The Revised Projected Data Chart is located on page 9 in Supplemental 2. The applicant projects it will provide 13,707 and 25,934 patient days of care in years 1 and 2 respectively. The total net operating revenue in year one (1) is projected to be \$(2,462,272) and is projected to be \$181,297 in year two (2) of the project.

The applicant's projected average gross charge in year one (1) of the project is estimated to be \$500.64 and \$532.79 in the second year of the project. The average deduction from revenue in year one (1) is estimated to be \$59.03 and is estimated to be \$103.26 in the second year of the project. The average net charge is estimated to be \$441.61 in year one (1) and \$429.53 in the

final year of the project. The applicant did not identify the reasons for the increased average deduction in year two (2) of the project and the reduced net charge. The reduction in the number of beds from 130 to 109, as well as possible changes in the RUG rates, may be contributing factors.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

The review of the application by the Office of Health Statistics revealed the applicant had in 2012 considered a project to renovate the Life Care Center of East Ridge. The study determined the cost of the project would not be as cost effective as building a new facility. The applicant presented a chart on page 4 of Supplemental 1 which documented the cost of renovating the current facility and the cost of building a new facility. The result of the applicant's analysis revealed renovation would cost \$16,292,080 while new construction would cost \$14,837,000. Further review of Supplemental 1 revealed a letter from Franklin Associates, Architects, Inc. which contained an estimate of \$17,837,000 for the construction project.

Note to Agency Members: Further review of Supplemental 1 revealed a letter from Franklin Associates, Architects, Inc. which contained an estimate of \$17,837,000 for the construction project. The basis for this estimate includes several factors not included in the comparative cost estimate such as A/E fees of \$740,000, site preparation costs of \$1,800,000 and a contingency fund of \$500,000.

The Life Care Center of East Ridge is licensed by the Tennessee Department of Health, Division of Health Licensure and Regulation. The applicant supplied a copy of the last licensure/certification survey conducted by the East Tennessee Regional Office on January 21-23, 2014. An on-site revisit was performed on March 12, 2014. Based upon the survey and the plan of correction (POC) the facility was found to be in compliance with all participation requirements as of February 14, 2014.

The applicant states that the amount paid in state and federal penalties against Life Care Center of East Ridge since January 1, 2011 is \$195,715. This was the result of a civil monetary penalty levied against the facility in regard to its 10/18/2011 survey.

Note to Agency Members: The applicant, in response to questions regarding pending litigation, informed the HSDA staff that the pending court cases identified by the applicant have been combined in the United States District Court for the Eastern Division of Tennessee. These two (2) cases involve allegations of improper billing for skilled services. The applicant believes, as it notes, that it has substantial defenses to the allegations and intends to vigorously defend itself in this civil litigation, as noted on page three (3) of Supplemental 3.

The Life Care Centers of America, Inc. are a network of 235 facilities in 28 states with 5 currently licensed nursing home facilities in Hamilton County. This allows administrative and clinical services, as well as facilities, to be optimized for the delivery of comprehensive nursing home services. The presence of the corporate offices in nearby Cleveland, Tennessee will provide management resources to assist in the completion of this project.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan*.

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

There will be no additional beds as a result of this project. The project will result in a reduction of 22 nursing home beds for Life Care Center of East Ridge.

2. For relocation or replacement of an existing licensed health care institution:
 - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.
 - b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The cost of renovating the existing structure would be \$16,292,080 while the cost of the proposed new facility would be \$14,837,000.

The average daily census for the 108 bed skilled nursing facility is expected to go from 55.3 in project year 1 to 71.1 in the second year of operation.

3. For renovation or expansions of an existing licensed health care institution:
 - a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.
 - b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

This specific criterion is not applicable to this project.

